

JPRS-CAR-93-058  
10 August 1993



# ***JPRS Report***

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## **China**

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## GENERAL

### Think Tanks Participate in Forum on World Economy

93CM0351A Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 2, 10 Feb 93 pp 1-40

[Selected speeches at: "Forum on the World Economic Situation and Orienting Enterprises Toward the General International Market"]

[Excerpts] Editors note: The SHIJIE JINGJI editorial department and the general office of the newspaper ZHONGGUO MAOCU BAO held a three day forum from 6-9 January 1993 in Zhuozhou City, Hebei on the world economic situation and ways for enterprises to become oriented toward the general international market. Over 90 professionals and academics and more than 60 enterprise representatives from all areas throughout China attended the forum. The participants had lively discussions and exchange of views on the forum's theme. We are publishing here certain typical views. The texts of the speeches given by some of the professionals at the forum will be published later. [end editor's note]

**Li Changjiu [2621 7022 0036] (XINHUA, International Department):** World economic growth has slowed in the first three years of the 1990s.

The sustained world economic recession during the first three years of the 1990s will mostly continue in the fourth year, with no particular optimism. According to statistics and projections by pertinent UN organs, the world economy's average growth rate of 3 percent in the 1980s was 1.8 percent, -0.4 percent, and 0.8 percent for 1990, 1991, and 1992, respectively, and will reach only 2.3 percent for 1993.

The slower growth of the world economy in the 1990s is due mainly to the following four factors:

#### **1. The Superpower Economic Cycles Are Not Synchronized and Lack "Locomotion." The GNPs of the United States, Japan, and Germany Make Up More Than 50 Percent of World Gross Output Value, Being the Engines That Drive World Economic Growth.**

When the U.S. economic recession began in July 1990, Japan and Germany's economic growth rates were at 5.7 percent and 4.5 percent, respectively. As Japan and Germany's economies were maintaining high growth, the U.S. introduction of foreign investment and foreign trade continued to grow, reducing pressure on the U.S. economy. So the U.S. economy still grew 1 percent in 1990. The U.S. National Economic Studies Bureau's Economic Cycle Determination Commission recently announced that the U.S.'s ninth economic recession since the Second World War ended in March 1991. With three sustained quarters of economic recession, and real GNP down 2.2 percent, the recession period and decline extent were similar to the averages for the previous postwar economic recessions. The problem was that just

as the U.S. economy was on the verge of recovery, Japan's economic growth rate clearly slowed. While the Japanese economy had averaged high annual economic growth rates of 5.3 percent from 1986 through the first quarter of 1991, Japan's economic recession had begun by April 1991, with its economic growth rate down to 4.5 percent for the year. When negative growth of 1.6 percent occurred in the third quarter of 1992, Japan's Economic Business Planning Department projected that the year's growth rate would be only 1.6 percent, far lower than the 3.5 percent that it had planned for at the beginning of the year. It was not until the end of August 1992 that the Japanese government finally approved "comprehensive economic countermeasures" amounting to 10.7 trillion yen (about \$86 billion), whose impact would show up only in the last half of the next year (1993). So the Economic Cooperation Organization projects that Japan's 1993 economic growth rate will be only 2.5 percent. Germany's economy experienced negative growth in both the second and third quarters of 1992, showing that it had entered a new cycle of economic recession. The Gill World Economic Studies Institute projected that Germany's 1992 economic growth rate would be 1.5 percent, while the IMF projects that Germany's economy will grow only 0.6 percent in 1993. Because Germany is the economic superpower in the EC, and Germany's economy is stalled, the EC Commission projects that the economic growth rates of the 12 EC countries will average 1 percent and 1-1.5 percent for 1992 and 1993, respectively.

The deterioration of economic conditions in countries, such as Japan and Germany, with capital exports down and markets slumping, limited the U.S. economic recovery and added to the momentum. As the U.S. recovery period of six successive quarters since its ninth postwar economic recession has seen average quarterly growth of 1.8 percent calculated annually, this has been its slowest postwar recovery. All the way to the third quarter of 1992, corrected for inflation, the U.S. GDP at an annual rate reached \$4.93 trillion, slightly higher than the prerecession \$4.9027 trillion for the second quarter of 1990. So while according to the cyclical definition, the U.S. economy had entered a growth cycle, it had grown only 3.4 percent in this third quarter of 1992 at an annual rate, far lower than the average growth of 5 percent after its previous postwar economic recessions. Many economists hold that even this growth rate will be hard to maintain. The U.S. Chamber of Commerce projects that the U.S. economy will grow only 1.9 percent and 2.2 percent for 1992 and 1993, respectively.

Economic conditions have improved in most developing countries. While the pertinent UN organ projects that the developing countries' economies will grow 4.5 percent and 5.7 percent in 1992 and 1993, respectively, the GDP of developing countries, which account for 77 percent of the world population, makes up less than 20 percent of gross world output value. So the somewhat higher growth of the developing countries' economies will be unable to have the impact of driving faster world economic growth.

**2. The Economic Policies of Developed Countries Are Not Coordinated. This Can Be Seen Mainly in Each Going Their Own Way in Monetary Policy, and Trade Friction Easing at One Point While Growing at Another.**

To stimulate economic recovery, the U.S. Federal Reserve Commission (the central bank) lowered its federal-fund interest and discount rates 17 times from 1990 to 2 July 1992, reducing the federal-fund interest rate from 10 percent to 3.25 percent, and lowering its discount rate on loans to commercial banks and the preferential interest rate on loans to major customers by commercial banks to 3 percent and 6 percent, respectively, bringing all of these rates to their lowest level in 27 years.

When Japan's money markets were in their period of full speculative prosperity, Japanese banks maintained low interest rates (2.5 percent) for more than two years, being criticized as the chief culprit in Japan's "bubble-economy expansion," after which Japanese banks raised their discount rate to 6 percent. By 1 July 1991, Japanese banks lowered their discount rate to 5.5 percent, after which it was lowered through three adjustments to 3.75 percent by 1 April 1992.

Germany raised its interest rates repeatedly. At the G-7 meeting in Munich in early July 1992, U.S. President Bush criticized Germany's raising of interest rates for accelerating U.S. fund outflow and affecting the U.S. economic recovery, calling on Germany to lower its interest rates. British Prime Minister Major also called on Germany to lower its interest rates to speed up Western Europe's economic growth. But before the ink had dried on the G-7 communique, Germany's federal bank raised its discount rate on 16 July from 8 percent to 8.75 percent, for its highest level since World War II.

Germany's interest rates were far higher than those of the U.S., Japan, and other Western European countries, causing a sharp rise in the exchange rate for the German mark and a steep fall in that for the U.S. dollar and the British pound, touching off a European monetary crisis, and bringing chaos to Western money markets. So under pressure from most developed nations, Germany's federal bank finally lowered its discount rate to 8.25 percent, which is still higher than that of the United States or Japan.

The Uruguay round of the multilateral GATT trade negotiations that started in 1986 was originally scheduled to be over by the end of 1990. While all developed nations hold that concluding the Uruguay round of multilateral trade negotiations as quickly as possible is extremely important to recover the confidence of entrepreneurs, consumers, and money markets in world economic prospects, the United States and European countries have been unwilling to make concessions in agricultural product trade negotiations, leaving the Uruguay round of trade talks to be delayed repeatedly. On 5 November 1992, the U.S. government announced that unless the EC was able to come up with a plan that was

satisfactory to the United States quickly, the United States was going to impose punitive tariffs on EC exports to the United States of white wine and other products worth \$300 billion starting on 5 December, i.e., it was going to raise these tariffs from the existing less than 5 percent to 200 percent. As an Atlantic trade war was imminent, representatives of the two sides reached an agreement in Washington DC in mid-November that the EC would reduce its agricultural product export subsidies 21 percent within six years starting in January 1993, as well as cutting back its area sown to oil crops 15 percent. As French grain exports make up over 40 percent of EC grain exports, the French government held that the agreement reached between the United States and the EC infringed on French interests, so refused to acknowledge and accept it. So any expectation of a conclusion to the Uruguay round of trade negotiations was delayed to 1993.

As trade among developed countries makes up 75 percent of world trade, economic recession in and trade friction among developed countries affect world trade development. GATT provided statistics show that world trade turnover grew less than 5 percent in 1992, only slightly higher than its 3 percent growth for 1991. The general projection is that world trade turnover is expected to grow 5-6 percent in 1993.

**3. The Economies of the Major Developed Countries Are in a Difficult Period of Structural Adjustment.**

The Reagan economic prosperity of the 1980s was built on a foundation of sharply higher debt. President Reagan accumulated during his eight year tenure fiscal deficits amounting to \$1.338 trillion, or 1.47 times as much national debt as was accumulated by all presidents from the founding of the United States to Reagan's taking office. After Bush entered the White House in 1989, the U.S. fiscal deficits grew steadily, being \$220.4 billion in 1990 and reaching \$290.2 billion for 1992. At prevailing prices, the U.S. public and private debt that was \$1.569 trillion in 1970 was \$4.666 trillion in 1980 and had reached \$13.3849 trillion by 1990. The U.S. 1991 outlay for interest payments on the national debt alone had reached \$292.3 billion, more than that for either military costs (\$286.6 billion) or social security (\$256.3 billion). At present, 20 cents out of every budgeted U.S. dollar of individual income goes to interest payments on the U.S. national debt.

Both of President Reagan's two proposals for balanced budgets ended in failure. Bush's plans to cut the fiscal deficit remained unfulfilled. Clinton proposed during the 1992 presidential election to "revitalize the U.S. economy," as well as to cut the budget deficit by half, which were the major factors in his victory. Once Clinton was elected the 42d U.S. president, he first appointed certain economists to key posts in his administration's economic sector, showing that his difference from Bush was a greater emphasis on domestic economic matters. But once Clinton became the new occupant of the White House on 20 January 1993, how would he go



about trying to solve the structural-deficit problem? Clinton hosted a national economic conference in his hometown of Little Rock on 13-14 December 1992, to which he invited over 300 economists, businessmen, and labor union leaders for a widespread discussion of the current state of the U.S. economy and ways to stimulate it. Clinton said that this economic "summit conference" was aimed at reaching a consensus on the challenges facing the United States, finding ways to counter them, and stimulating public confidence. The participants agreed that to stimulate the U.S. economy, it would be necessary first to present a plan that could stimulate economic growth, create job opportunities, and ensure a steady drop in the federal budget deficit. But as to the formulation of such a plan, opinions varied and even Clinton himself was unsure. How to stimulate economic growth without increasing the deficit is the precise difficulty that Clinton is faced with.

While the Japanese government declared in September 1991 that Japan had created its longest postwar record of 60 consecutive months of economic growth, this so-called "quiet boom" period saw a sharp expansion of the "bubble economy," with sharp rises in real estate and stock market prices. Japanese stock market and real estate prices began to slip at the beginning of 1991, with the Nikkei stock price index dropping from 38,915.87 points at the end of 1989 to 14,309.41 by 18 August 1992, or 63 percent, for the sharpest drop in Japanese stock market history. Most Japanese urban real estate prices are now down 20-40 percent. But as Japanese stock and real estate prices are still too high in relation to GNP, it is going to take time to eliminate the adverse impact of the "bubble economy."

Since German reunification in October 1990, the German government's financial assistance to the eastern zone has reached a high of 150 billion marks a year, or several times higher than the original projection of 35 billion marks a year, and still rising. An economic studies institute in Munich projects that by the year 2005, the German government will have invested 2.4 trillion marks (or \$1.5 trillion) in the eastern zone. But the eastern zone's privatization is certainly not going smoothly. According to Trusteeship Office statistics, by August 1992, 3,810 of the over 10,000 formerly state-owned enterprises in the eastern zone had not been sold, with not even one large associated enterprise having been sold. Germany's federal, state, and local government budget deficits rose from 1990's 52.5 billion marks to 135 billion marks by 1992, with Germany's 1992 national debt reaching 1.35 trillion marks, making its per capita national debt higher than that in the United States. How Germany will go about adjusting its economic policy toward its eastern zone will have a sharp impact on Germany's short-term economic prospects.

**4. Since the Drastic Changes in Eastern Europe and the Breakup of the Soviet Union, the Eastern European Countries Since 1990 and the Former Soviet Union Countries Since 1992 Have Been in a Transition Period of Conversion to Market Economies.**

Statistics show that these countries are having an extremely difficult time making this economic conversion, in addition to experiencing political instability,

social unrest, and sharp economic deterioration. Statistics and projections from the pertinent UN organs show that the economies of the former Soviet Union and Eastern European countries shrank 5 percent in 1990, 15.9 percent in 1991, and 18.6 percent in 1992, with projections for 1993 being that the economies of the former Soviet Union countries will shrink an average of 7.6 percent, while those of the Eastern European countries will grow an average of 2.1 percent. While these countries' economic conversion to market economies is irreversible, it will be hard to expect a basic improvement in their economic conditions in the short-run.

Many countries, particularly the superpowers, are paying more attention to economic matters, the U.S. economy has entered and the Japanese economy is about to enter a growth period, most developing countries are seeing continued improvement in their economic conditions, and the economies of the former Soviet Union and Eastern European countries will shrink more slowly or gradually recover. So the state of the world economy in 1993 will be slightly better than in the last few years, with the possibility of further improvement in 1994. [passage omitted]

**Hou Ruoshi [0186 5387 4258] (Contemporary International Relations Studies Institute): The world economic growth rate has begun to rebound.**

While the developed countries are experiencing a slow economic recovery and Japan and Germany are in economic recessions, the world's economic growth rate has begun to rebound. World output grew at a rate of 0.8 percent in 1992, which can be expected to reach 2.3 percent for 1993. This includes output growth for developed nations of 1.5 percent in 1992, which may reach 2.0 percent for 1993. Developing countries may average growth of 6.2 percent for 1992 and 1993, which will be their highest rate in a decade. The Latin American countries have achieved particularly eye-catching economic achievements, with economic growth rates for 1991 and 1992 of over 3 percent. While certain Asian-Pacific countries (regions) are experiencing somewhat slower growth rates, they still have the highest economic growth rates in the world. So it is thus obvious that the world economy has exited another round of recession and begun to enter an economic growth cycle. Just as after past recessions, the world economy will begin a new round of adjustment. What will be the major direction of this adjustment?

According to traditional economic theory, only increased investment can spur economic growth, so that acting in accordance with economic laws means necessarily increasing investment during periods of economic growth, the key to which is ensuring that the new additional investment promotes a higher essentials production rate. But the high tide of investment in the late 1980s certainly did not bring a correspondingly higher essentials production rate. The G-7 countries experienced private investment growth of 7.6 percent and average labor output growth of 3.8 percent from 1960 to

1973, with their investment growing 8.7 percent but their average labor output growing only 2.0 percent from 1987 to 1989. The solution to this problem involves the makeup of production essentials. While symptoms of this problem had begun to show up in international economic relations in the 1980s, international commodity-economy conflicts delayed the resolution of the production essentials market problem, with mainly U.S.-European and U.S.-Japanese trade friction, particularly the U.S.-European conflict over agricultural products, obstructing the progress of the "Uruguay round" of GATT negotiations. If we recall the events that occurred in the world economy in 1992, it is not hard to see that the attention aroused by the production essentials problem was not accidental. Of all of those events, there are two that I believe are particularly noteworthy. 1. The European monetary crisis; and 2. the U.S. presidential election, in which both Clinton and Bush declared the need for vigorous development of education. These two matters are closely related to mid- and long-range world economic problems. Since the world economy has begun to recover, while global inflation has been curbed, two structural problems in the world economy have never been solved. 1. Money-market turbulence. This is expressed mainly in sharp volatility in financial-assets prices: In the mid-1980s, the major Western currency-exchange rates experienced sharp fluctuations, which phenomenon occurred again in 1992; in 1987 and 1989, the major stock markets experienced two steep falls, with the United States, and particularly Japan, experiencing large stock market slumps since 1991. 2. Labor-market rigidity. This is expressed in rising unemployment rates. But while the unemployment rate in developed nations has reached double digits, skilled workers remain in very short supply. To ensure that new additional investment in the 1990s promotes higher labor productivity, the key directions of world economic adjustment will be reforming essentials markets and adjusting essentials policies.

1. Investment requires funding. The 1980s saw a world fund shortage, while international money-market activities remained exceptionally brisk and international investment continued to grow. International bank loans grew from \$324 billion in 1980 to \$7.5 trillion by 1991, with their ratio to developed nations' GDP increasing from 4 percent to 44 percent. International bond issues grew from \$259 billion in 1982 to \$1.7 trillion in 1991. Some countries' percentages of domestic bondholdings increased. For instance, foreign holdings of U.S. government bonds rose from 7 percent in 1970 to 17 percent by 1988, which percentage in Germany was up from 5 percent in 1974 to 34 percent by 1988. International stock trading volume rose from \$120 billion in 1980 to \$1.4 trillion by 1990, for a growth rate averaging 28 percent a year. Direct foreign investment by the United States, Japan, Germany, France, and Britain rose from \$61 billion in 1986 to \$156 billion in 1990, for an average annual growth rate of 27 percent. Direct international investment throughout the world now amounts

to \$1.7 trillion. The world now has about 35,000 transnational corporations with approximately 147,000 overseas subsidiaries. Capital flow is driven directly by the new technological revolution, economic globalization, and economic marketization. While this ought to have speeded up world economic growth, it has had the opposite effect, as enterprises, individuals, and governments have gone into too much debt. Banking liberalization has made borrowing and lending easier. This not only has encouraged individuals to consume more through borrowing, but also has been an incentive to families and enterprises to borrow for purchases of real property and stocks. It has not only enabled families and enterprises to take on more debt, but has also steadily pushed up the prices of real property and stocks, thus rapidly increasing individual asset-holdings, even to the point where they exceed liabilities growth. For instance, from 1980 to 1990, Japanese urban real estate prices rose 300 percent, with the ratio of family net assets (assets minus liabilities) to depositable income up from 500 percent in 1985 to 850 percent by 1990. Once the economic recession began, the government put a tight-money policy into effect, which brought real property prices down. Since 1990, urban real estate prices are down 400 percent in Japan and 300 percent in Britain. Family and enterprise net assets are also down, weakening the consumer craze. Meanwhile, families and enterprises must repay debts, which also correspondingly reduces their consumer income. So the reduction in purchasing power and longstanding lack of consumer confidence have slowed the economic recovery.

Moreover, since the 1980s, all major world economic problems without exception have been tightly tied to international money markets. The world's three economic superpowers—the United States, Japan, and Germany, have severely imbalanced economies, which can be seen mainly in their balance of recurrent payments deficits, the source of which is an imbalance among the three economic superpowers in their shortfall between savings and investment, with an easing of the problem relying mostly on international capital movement. The international source of the debt crisis in developing countries was the return flow of "petrodollars" in international money markets in the 1970s and the sharp rise in international money-market interest rates in the early 1980s. The alleviation of this debt burden also depends mainly on capital financing on international money markets and the diversification of financial transaction methods. The former Soviet Union and Eastern European countries, as well as certain developing countries, are facing economic-system conversions. Reform of macroeconomic control, foreign trade, and monetary systems, as well as making currencies convertible, all require the use of international funds. The international economic friction aroused by international money-market changes has become the key conflict in international economic relations, particularly in the economic relations among developed nations. The sharp volatility in international money-market interest and exchange



rates in 1992 was a concentrated expression of monetary policy conflicts among Western developed nations.

2. In the 1980s, investment growth did not promote a correspondingly higher essentials production rate, a key cause of which was structural problems in fund orientation. In the makeup of tangible and intangible investment, the latter has still not been adequately emphasized. This involves a key production essential—labor. Since the Second World War, many countries have focused their efforts to solve labor problems on easing labor-capital relations, in an attempt to stimulate worker initiative. Labor-capital relations have certainly been eased somewhat. In the 1980s, work hours were sharply reduced in developed countries due to labor-movement losses. Workdays were down from 20.85 million in 1980 to 5.79 million by 1990 in the United States, from 1.67 million to 530,000 in France, and from 11.96 million to 1.9 million in Britain. In the 1990s, workforce-policy adjustment priorities are increased education and training. 1. Due to economic globalization, low-skill and -wage production has been shifted to developing countries with low labor costs, so that developed countries no longer need so many nonskilled workers. 2. Production automation means that machinery is replacing manpower. In particular, as to production, the new technological revolution and the sustained postwar economic growth have created many jobs that need skilled workers, meaning that more educated and knowledgeable workers are needed. As to demand, the steady increase in real income and the spread of social welfare have increased demand for complex products and workers, with the technology used by workers also being more complicated. A decade or so ago, when manufacturing production had just started to use information technology, many were concerned about the jobs done by workers becoming simply keeping watch over machines, which would mean a less skilled workforce. But exactly the opposite occurred, in that the information revolution increased the demand not only for scientists and engineers, but also for managers and supervisors. Modern production is characterized by intelligent workers operating technologically-complex machines. 3. Production-organization changes require workers to have a certain amount of management talent. At the beginning of this century, when factories began to operate at scale, the resultant prosperity and good fortune were based on two principles: division of labor and centralization of management. Division of labor broke down complex production tasks into simple work procedures, while centralization of management permitted only managers to make strategic decisions, with workers having to accept their orders. But as modern enterprises use flexible production modes, management operations tend to be decentralized. 4. Due to low labor costs, developing countries are equipped for large-scale production, which advantage developed nations have lost. Their advantages are relying on top-level markets, by supplying rich consumers with high-quality, diversified, and timely products. So the key educational-reform objective is to adapt to the new forms of production organization, by training

intelligent and skilled workers who can use complex technology and adapt to diversified, flexible, and rapidly-changing consumer demand. [passage omitted]

**Chen Baosen [7115 1405 2773] (American Affairs Institute, Chinese Academy of Social Sciences): U.S. economic situation and Clinton's economic policy**

#### 1. U.S. Economy Has Already Recovered

An authoritative body for determining the point that the U.S. recession began—the Industrial and Commercial Cycle Definition Committee of the U.S. National Economic Research Office—recently gave this answer: the 1990-1991 economic recession is already past. This economic recession, which began in July 1990 and ended in March 1991, lasted eight months.

The U.S. economy has now entered a new stage in which it is recovering and moving toward expansion. A sign of the recovery was that in the third quarter of 1992 the GDP, calculated on an annual basis (1982 constant prices), reached \$4.93 trillion, surpassing the highest peak before the recession of \$4.9245 trillion. In line with the definition of cycles, the U.S. economy had already recovered.

There are two characteristics of the path taken by the U.S. economic recovery. First, it has continued for a long time; second, there has been large undulations and fluctuations in it. The U.S. recession that began in July 1990, after three quarters, showed a 2.2 percent drop in the economy, and the degree of its seriousness was roughly similar to that of all previous recessions. However, from the bottom in April 1991 to the start of the recovery took six quarters, which was unparalleled in the postwar era. Compared with the 1981-82 economic recession, which took three quarters from the bottom to the start of the recovery, this was a lengthy period of time. While the economy was recovering there were great fluctuations in economic growth. For example, in the second quarter of 1991 the GDP rose 1.7 percent, and in the third and fourth quarters it respectively rose 1.2 and 0.6 percent. In the first quarter of 1992 it rose 2.9 percent, in the second quarter it rose 1.5 percent, and in the third quarter the latest adjusted figures show a sharp rise of 3.4 percent.

The limping progress of this recovery has a close relationship with the imbalances in the national economic structure accumulated during the eighties. The unprecedentedly large federal deficits, and the record peaks of enterprise and private debt and the credit expansion caused by them, pushed the overproduction in the real estate industry and the enterprise industry to an extreme, and also inflicted a grievous wound on the vitality of the banking sector, which is in a difficult plight and will require a fairly long process of adjustment to restore its vitality. In addition, the restriction of the enormous deficits on the federal government makes it difficult to financially stimulate the economy and is also a cause of the slowness of the recovery.

Through the major readjustment of this recession, some positive factors are emerging in the economy.

One positive factor is the rise in the labor productivity rate. Recently the Department of Labor revised the growth in the productivity rate in the third quarter of 1992 from the original 2.6 percent to 3 percent. This means that the rise in the per hour output rate was the fastest since 1975. It was not only the result of staff reductions and factory closings, but also the effect of increases in equipment investment. In the third quarter of 1992, the enterprise sector's annual growth of 11.8 percent in capital expenditure for equipment was the best result in eight years. The 21.8 percent rate of expenditure on information-processing equipment was a sharp increase. The combination of the rise in equipment investment and the reduction in the staff and worker ranks makes it possible for the productivity rate to have a sustained rise. This increases the room for maneuver in checking inflation and raising wages and profits.

Second, weekly working hours increased. Even if big corporations have reduced their personnel, the working hours per week of staff and workers on the job have increased. Since September the working hours per week in nonagricultural enterprises have risen from 34.3 or 34.5 to 34.7, reaching a peak for the last three years. In November, the working hours in the manufacturing industry rose to 41.3, the highest level in 26 years.

Third, income of staff and workers increased. In November the wages of staff and workers in nonagricultural industries rose 0.6 percent, reaching \$10.71 per hour. As for the entire year, the salaries and wages of staff and workers increased 2.5 percent compared with those of the year before. This shows that the money of American families went a little further, and purchasing power was strengthened. According to reports, in the first week of December the stores' volume of sales was 6.9 percent higher than that in the same period of the year before.

Fourth, the burden of debt on families has been somewhat lightened. The proportion of installment loan debt in after-tax income fell from 17.7 percent in 1991 to 16.1 percent in October 1992, the lowest point since 1985. The lightening of the debt burden has given families more ready cash to budget for themselves, and a fairly small amount of money is used to repay debts.

The news that large corporations reduced personnel is the dark side of the economic recovery. To lower costs and raise profits, many large corporations have made every effort to streamline their administrative structure. In 1993 General Motors plans to reduce 8,000 white collar workers, Southern Bell 8,000, Data Systems 7,000, and Boeing 2,500. This news will, of course, make people feel deep anxiety, but it will not cause the economic recovery to come to a premature end, because the people cut by large corporations can find work in medium-sized

and small enterprises. For example, last year the computer industry cut 28,000 jobs, of which IBM and Data Systems accounted for the greater part. However, in the same period other computer services companies and software companies added 26,000 jobs. In the financial sector the situation is similar. Some big insurance companies like Travelers and some big banks are still cutting personnel, but the negotiable securities sector, because Wall Street has set a record in profits, is now increasing the number of its employees and expanding its business, and this number is more than enough to offset the former. Moreover, after cutting personnel some corporations have turned to starting construction projects in some businesses to provide society with service companies, and these companies become new places for surplus labor to go.

The appearance of positive factors does not mean that we are saying that Americans can sit back and relax about the economic future. The main unfavorable factors are the problem of imbalance at the deeper level of structure, the problem of readjusting the post-Cold War industrial structure, as well as the problem of a worldwide economic slump. In this economic recession, America's federal deficit continued to grow, and periodic adjustments have not been able to correct the structural imbalance. It has now been announced that the federal deficit for the 1992 fiscal year was \$290.2 billion, setting the highest record in history, and that in 1993 it is estimated to be between \$300 and \$310 billion. Financial circles worry that inflation will return, and so even though the short-term interest rate has fallen to the lowest point in 30 years, the long-term interest is being maintained at a fairly high level.

The reduction in the national defense outlay after the end of the Cold War, although bringing a peace dividend, has caused the U.S. economy temporary difficulties. The greatest encumbrance to economic growth is the cutback in the number of employees of national defense contractors; last year 140,000 were cut, and in the future there will be further cuts.

In 1993 the continued slump in the world economy will adversely affect U.S. exports. The International Monetary Fund [IMF] recently issued a forecast saying that in 1993 the economic growth of industrialized countries would be 2 percent, lower than the 3 percent forecast in February. The main cause is Germany's economic recession and Japan's economic slump. It is estimated that in 1993 Germany's economic growth will only be 1 percent and that Japan's will fall from the original 3.8 percent to 2.5 percent. Washington's International Economic Research Institute estimates that a worldwide economic depression will cause in America a reduction of \$20 billion in exports and a reduction of 400,000 employed people.

On the one hand, various positive factors are promoting an expansion of the economy; on the other hand, internal and external factors also form encumbrances to economic growth. Therefore, it is estimated that in 1993 the



U.S. economy, although better than in 1992, the forces for expansion will be weaker than the average level in all previous periods of economic expansion. The IMF forecasts that next year the growth rate of the U.S. economy will be 3 percent. Washington's International Economic Research Institute thinks this forecast is too optimistic and does not take into account the weakening of the internal economy.

## 2. Clinton's Economic Policy

Clinton's election victory signaled a reverse swing in U.S. economic policy. The thinking on America's domestic economic policy, from beginning to end, has, to different degrees, swayed between reformist and conservative government intervention on the one hand and laissez-faire on the other. The failure of the Keynesian policy in the seventies put neoconservatives, with the ideas of the supply-side faction predominating, in the superior position, and the policy balance began to tilt toward the laissez-faire side.

The supply-side faction for several years experimented with a widening of the gap between rich and poor, causing the macroeconomy to go out of control, and the federal deficit and debt on all sides piled up to a great amount. That in this economy this time, after coming out of the bottom of the recession, there appeared a slump that had not happened in the postwar period has a close relationship with the imbalance in the macroeconomy. The source of the problem originated in the eighties, and was the bitter fruit planted by neoconservatism and swallowed by Bush. Now the political balance has begun to tilt toward the other side.

However, this change has come too fast, and the theoretical preparation for replacement of neoconservatism has not been fully made. Obviously the Democratic Party cannot again use Keynesianism to appeal to the masses, but it has not yet come up with a new complete set of theories. As a result, in the election campaign Clinton, unlike Reagan, did not take a clear-cut stand on theory. However, some people attacked Bush for his inertia in focusing on the domestic economy, and Clinton promised voters that would use government action to promote the economy. Quite naturally, "activism" became the Democratic Party's feature point for rallying the economy. Activism is opposed to the neoconservatism position that the government not intervene when there are economic fluctuations. Also, some people call it activism guided by supply, because it advocates that money be taken to promote public and private investment, improve the infrastructure, and improve worker quality. Therefore, it differs in part from Keynesianism, which takes measures to effectively stimulate demand.

From a look at the economic conference held in the city of Little Rock, we see that Clinton's economics is still in the process of formation and that its theory is low-key. In the economic group appointed by Clinton, there are only

two economists. One is Laura Tyson, chairwoman of the Council of Economic Advisers; the other is Alice Rivlin, deputy director of the Office of Management and Budget. It is more fitting to say that they were appointed in their status as women and not in their status as economists. Lawyers, bankers, stockbrokers, and other power faction figures will assist Clinton in "hoisting the sales and steering the boat" of the U.S. economy. The flavor of dealing with concrete matters relating to work is strong. However, the "main melody" of this administration is attempting something and doing something with government action.

Based on the program Clinton put forward during his campaign for office, the priorities in his economic policy will be: 1) Encourage private investment by reducing or remitting taxes on new equipment investment, reduce the capital gains tax on investment for starting up enterprises, and extend the reduction or remitting of taxes on expenses for enterprise research and development. 2) Increase government investment, annually invest \$20 billion in roads, bridges, and environmental clean-up, and switch national defense scientific research to the development of civilian high technology. 3) Raise the tax rate on families in which the combined husband and wife income is \$200,000 or more and newly impose a surtax on wealthy people, impose a new tax on U.S.-managed foreign companies, appropriately reduce the taxes on the middle class, and reduce or remit the taxes on the income of poor working people. 4) Improve education, strengthen training, give college students tuition subsidies, implement an appropriate program for high-tech occupations, and demand that enterprises set aside funds equal to 1.5 percent of the wages it pays for use in retraining workers. 5) Formulate a health insurance plan for all the people, shrink health insurance expenditure, and encourage the establishment of a managed health insurance network.

The follow-up items will be: 1) with regard to the North American Free Trade Agreement (NAFTA), increase environmental protection and retrain staff and workers who lose their jobs because of the agreement; 2) cut the deficit in half within four years, further cut tuitions as well as other possible state expenditures, and redetermine the order of priority in the budget; 3) reform the social welfare system; and 4) limit the negative tax on managerial personnel with an income of \$1 million or more, improve labor-capital relations, and promote labor-capital cooperation.

Clinton's economic program won the support of the greater number of voters because it called for change, and in a focused manner raised the problems that America urgently needs to solve. For example, at the Little Rock conference Clinton fiercely attacked the excessive expansion of health care costs, maintaining that it has created a vicious circle in the health care system and that it is an important source of the loss of control over the federal deficit—all of which is in line with reality.

However, his economic plan still contains the contradiction between national plans and the unsuitability of national strength to attain them, and the contradiction between a short-term stimulus of the economy and a long-term reduction of the federal deficit. For example, on the one hand he wants to control health care costs, and on the other hand, wants to put into practice a national health care plan. The latter is something that no previous U.S. president dared ask, because to solve the problem of 35 million U.S. citizens who lack doctors and medicine at the minimum would require an increase of \$50 billion in expenditure, but Clinton has not explained how he would raise this sum. Clinton wants the U.S. government to play the role of booster of the economy. However, with regard to the economic stimulus, to what degree it can be advantageous to the growth of the economy and reduction of the unemployment rate, while not causing a further expansion of the structural deficit, is a problematic question. Clinton's promise at the Little Rock conference to cut the deficit in half within four years has already been discounted. John White, one of Clinton's informal advisers, has said that in fiscal year 1996 the U.S. federal deficit will be \$290 billion, not the \$193 billion Clinton had earlier stated it would be. The reason is that changes have occurred in various economic and technical bases, and Congress has postponed expenditure to sort out the bankrupt savings and loan.

When Clinton came to power he had two major advantages: The first was that Congress, in which the Democratic Party enjoyed a majority, would back the president; and the second was that the U.S. economy itself had recovered and was moving toward expansion, so perhaps there was not needed an excessive amount of stimulus for it to become even better. Therefore, in the short-term view, Clinton could have smooth sailing.

However, it is much more difficult to solve the problem of long-term structural imbalance. The sources of America's structural problem are high consumption and low accumulation, high deficits and low savings, as well as, caused by the above, a slowness of the growth of the productivity rate and the relative weakening of America's position in international competition. To solve this type of fundamental problem, he must make certain fundamental changes, which will touch on the vested interests of certain groups. It demands powerful leadership, correct policy decisions, and resolute action on the basis of obtaining a common understanding by the majority of the people. Whether Clinton can do this is the main basis on which people in the future will make an historical evaluation of America's 42d president.

**Ke Juhan [2688 1446 7281] (Institute of Modern International Relations):** In 1992 the U.S. economic situation remained fairly grim, but in 1993 it will take a distinct turn for the better.

The characteristic of America's economic growth in 1992 was that at the beginning and end of the year there was an acceleration, while in the middle of the year there was a slowdown, and speaking overall, it was a year in

which the growth rate remained fairly low. In the first three quarters of last year, the GDP's growth rates were respectively 2.9, 1.5, and 3.4 percent, with an estimated economic growth rate for the entire year of about 2 percent. Although this was much better than the negative growth rate of 1.2 percent in 1991, it was still lower than the growth rate of 5 percent or more in the first year of all previous economic recoveries in postwar America.

In America 1992 was a general election year, and the sitting president, Bush, originally hoped that the economy would quicken its pickup and thus improve his position in the election campaign. For this reason, as early as 1991 he took, one after another, various measures to stimulate the economy, such as lowering the discount rate and the federal fixed interest rate and accelerating payments of government appropriations, but it was difficult for the U.S. economy to develop as he wished. (1) The momentum of production was unstable, and the important industrial sectors still had not extricated themselves from difficult circumstances. In the first half of 1992, the total production scale increased by a fairly large amount in the first quarter, but then decreased by a large amount in the second quarter. Industrial production also "stopped and walked." In the previous nine months it had fallen in three months, and for the entire year it was estimated to increase by only 2 percent. In important basic industrial sectors, like the motor vehicle and construction industries, there has been a certain pickup in production, but in general it has recovered only to the 1990 level. (2) The unemployment rate is still at a fairly high level. Last year it increased from 7.0 percent in January to 7.8 percent in June, and the total number of unemployed people in the same period increased from 8.93 million to 9.98 million, a sharp increase in half a year of 1.05 million. In the stage of an economic pickup, the abnormal phenomenon of a continuing worsening of the economic situation has caused widespread concern in U.S. society. Since July the unemployment has fallen month by month, but at the end of the year it was still over 7 percent. (3) There has been a small pickup in the commodity market. The retail trade volume in their first three quarters of last year was a monthly average of \$159.4 billion, which compared with that in the same period of 1991, was an increase of only \$5.8 billion. The monthly average of orders for the manufacturing industry's durable goods was about \$119.9 billion, which was not yet a return to the level before the 1990 recession. (4) Corporate profits have risen and fallen, and the increase in fixed capital investment has been small. According to statistics from the U.S. Department of Commerce, in the first two quarters of last year corporation after-tax profits increased, but in the third quarter they fell from the second quarter's annual rate of \$232.7 billion to \$218.8 billion, a drop of 6 percent. In the first three quarters, the actual volume of fixed capital investment, calculated at an annual rate, was \$508.8 billion, only a 1.6 percent increase compared to that in 1991. (5) A large number of enterprises and banks have closed down. In the first seven months of last year alone, in America 59,188 nonfinancial enterprises



closed down, a 16 percent increase over that of the same period in 1991. According to an estimate by America's Federal Deposit Insurance Corporation, in 1992 a total of 125 American banks went bankrupt, and their total assets were as high as \$37 billion.

Last year the U.S. economic situation was still not good, and cyclical negative effects, no doubt, still existed, but the main factor impeding a fast pickup in the U.S. economy was the serious structural crisis, which was prominently manifested in the excessive expansion of debt causing deflation. By 1991 the grand total of private and public debt in America was over 10 trillion yuan [currency as published], almost double the GDP. The excessive debt was bound to move toward a certain degree of contraction, causing the state of imbalance to be corrected in an appropriate measure. But this process of adjustment itself unavoidably brought serious consequences to the growth of the U.S. economy. First of all, the contraction of private debt caused expenditure on consumption to fall, and economic growth lost its most important supporting force. In 1991 the average debt for every American was \$13,000, or 97 percent of his or her actual disposable income, and such a heavy debt burden made it difficult to continue to increase consumption. Actual individual expenditure on consumption in 1991 fell to \$3.2408 trillion, and the amount spent on paying off consumption credit and debt fell to \$727.8 billion. In 1992, although there was a pickup in expenditure on consumption, consumption credit and debt still continued to contract, viz., falling from \$728.6 billion in January to \$720.8 billion in August. Expenditure on consumption accounted for two-thirds of America's GDP, and it is the "central nerve" of U.S. economic activity. That it did not buoy motor vehicle and housing sales became a problem, thereby causing a long-term slump in America's basic industries, which weakened the forces giving an impetus to the entire economy. Next, enterprises' cutback on debt caused a loss of vitality in fixed capital investment, and the banking sector's tightening of commercial loan caused a reduction of funds flowing into the economy. The Bush administration's control of the scale of the national debt also weakened its ability to intervene in the U.S. economy. From this it can be seen that the negative consequences caused by debt readjustment continued to exist in 1992; they restrain U.S. economic growth, and are a fundamental reason that the economy in the general election year was sluggish and could not be stimulated. Besides, the economies of the European countries and Japan last year landed in a predicament, causing America difficulties in increasing exports. The foreign trade deficit re-expanded, increasing from about \$60 billion in 1991 to more than \$80 billion in 1992. This brought to nought the Bush administration's hope that an expansion of America's commodity exports would cause its economy to grow.

In 1993 there will be a fairly favorable pickup in the U.S. economy. The main bases for this conclusion are: (1) In 1992 some positive factors appeared in the U.S.

economy, e.g., since the last half of the year began there was a rapid pickup in the economy. There were signs that in the individual's actual income tax, consumption and other expenditures, the economic distribution index and other indices had taken a turn for the better, indicating that the U.S. economy would enter a cyclical period of expansion. (2) The rate of inflation is fairly low, so there is still room for maneuver in stimulating the economy. (3) International prices of raw materials and of oil are fairly low. In particular, the price of oil has been stabilized for a fairly long time at the low level of \$20 per barrel, causing production costs to fall. All of this is advantageous for the enterprises to expand reproduction. (4) Leaders in the White House have taken turns in boosting confidence in enterprise investment. According to a survey taken by the U.S. Department of Commerce, this year fixed capital investment by U.S. enterprises could increase 4 to 5 percent compared with that in 1992. (5) The new Clinton administration will implement a plan for a short-term stimulus of the economy. In the middle of December 1992, Clinton held in Little Rock a nationwide economic conference of 300 experts and entrepreneurs who exchanged views on the economic problems facing America and sought countermeasures. The conference basically affirmed a policy of short-term stimulus of the economy, long-term solution of the deficit problem, and enhancement of the national strength. Although opinions on the dynamics of the stimulus were not completely identical, the increase in expenditure on the infrastructure and other public projects, on reduction of taxes on enterprises stimulate investment, and on education and training will still be \$20 to 60 billion, which without doubt, will have a stimulating effect on the U.S. economy. However, the new Clinton administration still has no way to bypass the barrier of America's structural economic problems. Not long ago Clinton admitted that America's structural economic problems had been accumulating for many years, and even if there is a real pickup in the economy these problems will continue to exist, and neither he nor any other person elected to be the new president could solve them within his term of office. At the same time, the European and Japanese economies this year will still be weak, and it is estimated that this year's EC economic growth will be about 1.5 percent, only a little higher than that of 1992. According to Japan's official statistics, in 1992 Japan's economic growth rate fell to about 1.6 percent from the 4.4 percent in 1991, which was the biggest drop in economic growth rate last year of all Western developed capitalist countries, and this year it will not be easy to maintain last year's growth rate. In addition, there is still one obstacle after another to a turnaround of the economies of the countries of the former Eastern Europe and of the countries of the CIS, and their economies continue to be in a state of chaos and downside; it is estimated that these economies this year will continue to fall more than 5 percent, thereby limiting their ability to absorb U.S. commodities. The developing countries and regions of Asia and the Pacific, as well as the developing countries of Latin America, because of a new vitality in their economies, will increase

their import of some U.S. commodities, but in the final analysis, they are not the principal markets for U.S. commodities. Therefore, in the overall view, the growth rate of the U.S. economy in 1993 is estimated to be 2.5 to 3 percent, lower than that in a year of normal economic recovery, and the short-term economic prospects still do not provide grounds for optimism. But what is noteworthy is that the U.S. economic recovery came early and that it was also earlier than those of other countries. The cyclical course of Japan's and Germany's economic development is markedly lagging behind. In addition, with the improving and updating of the White House leadership and with the new adjustment of economic policy, this year America's economic growth rate would be the fastest of all the Western developed capitalist countries.

**Ye Qixiang [0673 0366 3276] (International Trade Research Institute, Ministry of Foreign Economic Relations and Trade):** After Clinton's assumption of power, Sino-U.S. economic and trade relations will continue to develop.

The development of Sino-U.S. economic and trade relations has traversed a tortuous path. In 1972, when former president Nixon visited China he began an abrupt turn in Sino-U.S. relations, and economic and trade relations between the two countries were gradually restored and developed. In 1979 China and America established diplomatic relations. Afterward, they signed one after another the "Sino-U.S. Trade Relations Accord," "Sino-U.S. Industrial Technology Cooperation Agreement," "Sino-U.S. Textile Agreement," "Sino-U.S. Fishery Accord," "Sino-U.S. Sea Transportation Agreement," and "Sino-U.S. Accord on Exemption From Double Taxation." At the same time the governments of the two countries established an intergovernment economic joint committee. This mechanism for high-level meetings and exchanges between the two sides created favorable conditions for the swift development of bilateral economic and trade relations. In 1989 America began to impose sanctions on us, and up to now these sanctions have not yet been completely lifted. For this reason, the economic and trade relations between the two countries have not yet completely returned to normal.

#### 1. Concise Review of Two Sides' Economic and Trade Relations

Over the past several years, even if the course of development of Sino-U.S. economic and trade relations has encountered some difficulties, the two countries have maintained the momentum of development in bilateral trade, mutual investment, as well as economic and technological cooperation. At the same time as this, some problems between the two sides in the economic and trade domain are gradually being properly solved. There has been a very large improvement in the atmosphere of economic and trade relations between the two sides.

First of all, in bilateral trade, except for 1990, in every year a fairly large growth rate has been maintained.

According to the Chinese side's statistics, in 1979, when the two countries established diplomatic relations, the volume of bilateral trade was \$2.4 billion, and by 1991 it had increased to \$14.2 billion, an increase by about five times and a rise of 20.6 percent compared to that of 1990; of this volume, our exports to America were \$6.19 billion, an increase of 19.5 percent compared to that of 1990 and a rise by 9.4 times compared to that of 1979; we imported from America \$8.01 billion, an increase of 21.5 percent compared to that of 1990 and a rise by more than 1.3 times of that of 1979. In the period January through October 1992, the volume of bilateral trade was \$13.12 billion, of which we exported \$6.36 billion and imported \$6.76 billion, a fairly large increase compared to that in the same period of the year before last.

In investment, by the end of September 1992 U.S. businessmen had made 3,899 investments in China with total amount of agreements being \$6.32 billion, among the best of all countries investing in China. In particular, over the past two years, because of the improvement of China's investment climate, there has been a marked momentum in U.S. businessmen's investment in China. What is more important is that in the U.S. businessmen's investments in China not only are the investments large but also their success rate is very high. The great majority of U.S. investments in China in production management, production scale, and investment recovery have been fairly successful. Now, the grade of investments made by businessmen in China is constantly rising, and the number of capital-intensive and high scientific and technological investments are markedly increasing. At the same time as this, the investment sector is gradually expanding from the southeastern coast to regions in the northwest and the interior; the investment domain is also constantly expanding and touching upon many service domains. For example, now 14 U.S. financial bodies have set up in China operating mechanisms for managing the financial profession.

The year 1992 was one in which the development of bilateral relations was fairly difficult; at the same time it was also the one in which the most results were obtained. In 1992 the two sides successfully signed three accords on the protection of intellectual property rights, on the prohibition of trade in reform-through-labor products, as well as on the question of permitting entry into markets. All of these results are of extremely important significance. From different sides they at the same time show that, provided we proceed from the fundamental interests of the two sides, are in line with the spirit of mutual understanding and mutual benefit, and further perfect the bilateral consultative mechanisms, there will be no difficulty that cannot be overcome.

#### 2. Main Problems in Bilateral Economic and Trade Relations

Generally speaking, Sino-U.S. economic and trade relations are developing in a positive direction, but in the bilateral economic and trade relations there still exist some important problems and potential dangers.



a. The Problem of Most Favored Nation [MFN] Treatment

MFN treatment is the cornerstone of Sino-U.S. relations, and is also the indispensable condition for developing the two sides' overall relations. That China and America give each other MFN treatment is a reciprocal, mutual benefit and mutual preference arrangement that is made completely in adherence to international practice. Under the present circumstances we should pay particular attention to preventing the attachment of any conditions to the MFN treatment, including so-called "moderate conditions." This is a question of principle, because, no matter what is the condition attached to the MFN treatment, it violates the most fundamental principle of bilateral trade relations and also runs counter to the purpose of GATT.

b. The Problem of U.S. "Sanctions" Against China

In the past three years, America has imposed economic sanctions on China, and they are the greatest obstacle to the development of Sino-U.S. economic and trade relations. Among the sanctions, including the suspension of the lifting of controls on high-tech products for China, there is a termination of loans and guarantees by the U.S. Overseas Investment Bank to China, as well as the termination of the TDP cooperation project. Without a complete lifting of the sanctions against China, it will be difficult to obtain a normal, healthy development of economic and technological cooperation and of trade. In fact, under the circumstances in which some Western countries in succession announced the lifting of sanctions against China, if America continues to maintain its sanction measures against China, it can only seriously weaken the competitive ability of U.S. businessmen on the Chinese market. We hope that the U.S. side will as soon as possible keep the promises it made on export controls in the 10 October 1992 Sino-U.S. memorandum of understanding on permission to enter markets.

In addition, there are some problems in bilateral relations that are also extremely important, e.g., the problem of textile transit and the problem of confiscation of China's capitalized enterprises, which have not been brought up.

c. Prospects for Sino-U.S. Bilateral Economic and Trade Relations After Clinton's Assumption of Power

Bilateral economic and trade relations will continue to develop, but so will friction in transactions. That Clinton, after entering the White House as its master, will exert pressure on China is certain, but it will not be an all-out pressure that would lead to a rupture of relations.

This conclusion is based on the following considerations:

(1) Recent trends: 1. The tone of Clinton's position on trade with China has softened compared to what it was during the election campaign. 2. The Sino-U.S. Joint Committee on Commerce and Trade, which had been

suspended for three years, has been reconvened, which without a doubt, is a positive step in Sino-U.S. economic and trade relations. 3. Many members of Congress have taken the initiative to demand that they visit China.

(2) China and America both have major vital interests: 1. The WALL STREET JOURNAL has stated that America's trade relations with China have expanded and are developing strongly; many U.S. companies are becoming more and more dependent on products imported from China. 2. Clinton has said, "Our trade relations with China have created many employment opportunities ... Not isolating China and ensuring that China continues to develop a market economy has, for us, a major significance in gains and losses." 3. U.S. Deputy Secretary of Commerce Franklin has said: "We obviously want to do business with China, and we want to sell various kinds of things to China" and "China is a market, is a place for investment."

(3) Public opinion demands: 1. The WALL STREET JOURNAL has stated that if Sino-U.S. relations are seriously damaged, America, like China, will suffer a deep loss, because China can, on all sorts of issues, cause Clinton enormous trouble. from the trade issue to the arms control issue. 2. America's Atlantic Commission and U.S.-Sino Relations Committee in January 1993 submitted a report with suggestions on policy toward China to the Clinton administration, saying that it would be a mistake to adopt a negative policy toward China and that the administration should maintain positive relations with full contacts. The report suggested that, in giving China MFN status, America should neither eliminate nor add conditions, and should increase trade with, and direct investment in China. [passage omitted]

**Li Longyun (the Institute of Japan Studies of the Chinese Academy of Social Sciences): In the first half of 1993 the Japanese economy will hit bottom; in the second half of 1993, the economy will stop deteriorating and there will be an upturn in the economy.**

The cyclical downturn of the Japanese economy that started in 1991 has now lasted two years. In view of recent developments in the Japanese economy, the economy is likely to hit bottom in the first half of 1993, and there will not be an economic upturn until the second half of the year. There are several main reasons for that:

1. Since early 1992, the Japanese Government's measures to deal with economic recession have changed from being mainly financial policies to being mainly fiscal policies, and thus the recession-fighting measures will have stronger policy impacts. In March 1993, the Japanese Government instituted the "emergency economic policy." In the first half of the year, it completed 75 percent of the public works investment that had been planned to be completed in the second half of the year. The "comprehensive economic policy"—instituted in August 1992—contained the strongest measures to deal with recession ever taken in the post-War era, and the planned government investment totalled 10.7 trillion

yen (equal to 2.3 percent of the GNP of the previous year). This measure is believed to be able to produce the policy effect of stimulating the economy in 1993.

2. The process of bursting the "bubble economy" has basically ended for now. Since August 1992, stock prices have not plunged, and the stock price index has been hovering around 17,000 points. Land prices have continued to fall, but this will not greatly affect economic recovery. The bursting of the "bubble economy" is expected to leave behind some problems, but its negative effects on the economy will weaken in a relative sense.

3. After carrying out production-related readjustments, enterprises have reduced the rate of growth of their inventories. The rate of growth of manufactured-goods inventories has largely fallen to the level of 1990. In recent months, the index of industrial and mining production has fluctuated. The progress made in enterprises' effort to cut production so as to reduce inventories has prepared the conditions for expanding enterprises' production and for increasing the rate of capacity utilization. Under such circumstances, with the growth in final demand, 1993 will see a gradual upturn in the economy. Japan's economic growth rate is estimated to reach 1.5-2.0 percent in 1993. The fact that Japan has kept price stability and has not seen a high unemployment rate during the economic slump will be conducive to the occurrence of an economic upturn and the increase of private consumption.

In 1991-1992, under the situation of economic recession and stagnating domestic demand in Japan, Japan's external economic relations underwent noticeable changes.

First, Japan's trade surplus grew greatly. As domestic demand was insufficient, Japanese enterprises, relying on their international competitiveness, expanded their exports, while Japan's imports decreased. In 1991, with regard to foreign trade, exports increased by 8.1 percent, while imports decreased by 4.2 percent. Japan's trade surplus increased by 62.7 percent, reaching \$88.3 billion, which was next to the historical record set in 1986. Japan's trade surplus for January-November 1992 reached \$95.9 billion. According to forecasts, Japan's trade surplus for 1992 would equal the historical record, that is, \$135 billion. In October 1992, Japan's trade surplus with the United States reached \$4.96 billion, making October 1992 the month with the largest Japanese trade surplus with the United States since December 1988. Japan accounted for 70 percent of the U.S. trade deficit for that month. The increase in Japan's trade surplus with the United States has been a factor contributing to the intensification of trade frictions between Japan and the United States.

Second, the net capital outflow decreased. In 1991, Japan saw an amount of inflow of long-term capital that exceeded the amount of outflow of long-term capital. The net capital inflow amounted to \$39.7 billion, resulting in the occurrence of a deficit in the flow of

long-term capital for the first time since 1981. In January-October 1992, Japan restored the situation of having a surplus in the flow of long-term capital, but the net outflow of long-term capital amounted to little over \$20 billion. As compared with the situation in 1986-1988 when the annual net outflow of long-term capital amounted to as much as \$130 billion, the scale of Japan's export of long-term capital has greatly decreased. Such a situation has been closely related to the fact that in 1991-1992 the economic recession in Japan reduced the amount of surplus capital in the hands of Japanese enterprises, and that in the recent period the investment environment in the United States—where Japan's investment has been concentrated—has deteriorated. Japan's current account surplus totalled \$90.2 billion in 1991, and is estimated to have been as much as \$110 in 1992. This shows that the decrease in Japan's export of long-term capital has not been caused by the structural factor of insufficiency of funds, but mainly by the decrease, during the recession, in Japanese enterprises' capacity to supply capital for overseas uses and by the weakening in the desire to export capital.

An overall analysis of Japan's economic situation in the recent period shows that it is faced with a grave situation because the cyclical economic recession and the bursting of the "bubble economy" occurred at the same time, but that Japan has not lost its economic vitality and development potential. However, as the Japanese economy matures, as Japan's population gets older, and as the world economy is undergoing readjustments while the international environment is changing, its economic growth will be constrained by many domestic and external factors. Therefore, compared with the 1980s, Japan's potential economic growth rate for the 1990s will be lower, and thus the Japanese economy will enter a period in which its growth will slow down.

**Zhang Yunling (the Institute of West European Studies of the Chinese Academy of Social Sciences): The building of the Single European Market (SEM) and the economic situation in Europe**

As the ratification of the Maastricht Treaty was stalled, people focused their attention on the developmental difficulties experienced by Europe in 1992, but failed to give sufficient attention to the tremendous progress made in the process of building the SEM. Toward the end of 1992, most (approximately 95 percent) of the legislation needed for the establishment of the SEM had been adopted, and the member countries had also speeded up the process of ratifying the legislation. By October 1992, approximately three-fourths of the legislation had become laws of the member countries. According to estimates, around 85 percent of the legislation will be ratified and turned into national laws by the end of the year. This shows that the SEM has been basically established, and in January 1993 the EC became a unified internal market. The EC has officially declared that the SEM has begun to function.

In fact, the building of the SEM is a process, and started very early. Of the nearly 300 items of legislation that are needed, most had already been in existence, and only have had to be revised and augmented. Therefore, the completion of the legislation effort is only the beginning of a new process, and a true single market still requires further building efforts. People have cited many evidences to show that the SEM is not single. For instance, there are restrictions on the flow of people, restrictions on the flow of capital, and restrictions regarding technical standards. But because of the existence of the SEM legal framework, people have rules to abide by, and restrictions that are in violation of the SEM legislation can be eliminated. This is a great change. According to estimates, the effective implementation of the SEM legislation will take at least five years. That is, it would be quite fortunate if a real single market can be established within the EC by the end of the century. Actually, the building of the SEM will need to be facilitated by practical activities, that is, efforts to gradually eliminate obstacles and perfect the market in the course of development.

The coming into effect of the Maastricht Treaty has been delayed by the negative result of the referendum in Denmark. But during 1992, 10 members ratified the treaty in any case, and the compromise made at Edinburgh summit has provided the basis for a second referendum in Denmark this year. It seems that both Denmark and Britain will ratify the Maastricht Treaty. Thus, practical steps can be taken this year to put the Maastricht Treaty into effect. A review of the history of the development of the EC will show that it would be truly wonderful if such an important change can be implemented only after one year's delay. Of course, even with the ratification by the member countries, the Maastricht Treaty will still engender many problems in the process of its implementation. Thus, the building of a European Union has the following prospects: either the original goals are modified, or the effort to proceed with the original plans is postponed; or the two situations occur in a mixed manner. This will not mean a defeat, but represent efforts to search for realistic ways in the actual course of development. Some people are of the view that the Maastricht Treaty represents just one goal in the first place, and that revisions are inevitable. In view of all this, it is for the time being very difficult to say when and how the European Union will be established.

The beginning of the functioning of the SEM would not have "explosive" effects, and there will be no instant miracles in 1993. That is, the European economy will not immediately acquire a high growth rate just because of the SEM. But, the "European challenge" is a nonnegligible reality. The new modes and structures of international competition brought about by the establishment of the SEM are affecting, and will continue to affect, the development of the world economy. Europe still holds the key to the "European century." As pointed out by the

famous American scholar Lester C. Thurow in his recent book *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, Europe will be in the most advantageous position in the coming competition. The key is to adopt practical measures, including coming to be determined to promote the development of integration and to help East Europe and the countries of the former Soviet Union accelerate the structural transformations by providing large amounts of aid.

Europe faces three major difficulties in the development of integration: First, the effort to deepen integration is faced with the difficulties relating to making choice as well operational difficulties. In regard to choice, the critical issue is about what kind of integrated Europe is to be built. This is an old question, but has again become a prominent issue in the process of ratifying and implementing the Maastricht Treaty. The negative outcome of the referendum in Denmark and Britain's delay all happened against such a backdrop. It will be difficult for all the countries to accept a highly supranational, federal Europe. There is no way to establish a European Union with one currency and one central bank in a relatively short time. In fact, there are also practical difficulties in implementation in this regard. For instance, according to the Maastricht Treaty, to establish the Economic and Monetary Union, the member countries have to reach uniform standards on such matters as those of interest rates, inflation rates, fiscal deficits, and exchange rates. An analysis of the current situation shows that only two or three countries can reach the standards right away, and that only a few of the countries will be able to reach the standards by the end of the century. Under such circumstances, even if all the member countries ratify the Maastricht Treaty, it would still be difficult to complete the implementation. It would be necessary to either follow the policy of "two-speed Europe," or to postpone the achievement of the goals or revise the originally set goals. Second, East Europe and the countries of the former Soviet Union are encountering huge difficulties in transforming their economic systems. Previously, people believed the transformation of those countries' economic systems to be much easier than it has turned out to be the case. First, it was believed that the capitalist system was a panacea, and that the introduction of capitalism would bring about immediate prosperity. Such has turned out not to be the case. Take just one issue. Just the change from having one system into having another system would take time. Second, it was hoped that West Europe, and especially the EC, could provide large amounts of aid, and that accelerated transformation of the systems could be achieved with the help of the "blood transfusion." However, as it has turned out, because the EC itself has encountered difficulties and because especially the unification of the two Germanies has resulted in West German capital flowing mainly to eastern Germany, the funds that West Europe has been able to provide has not been as much as hoped and has not been provided in a timely fashion. An overall analysis of all the factors shows that it will take some time for the situations in those countries to improve markedly. The instability in East Europe and



the countries of the former Soviet Union will seriously adversely affect European integration economically, politically, and socially. For instance, the immigration issue has become a serious problem, not only causing political and social conflicts and but also becoming a factor constraining the development of integration. How and when those countries will be incorporated into the system of European integration will also be determined by the situations regarding the adjustment and development of their economies. From the standpoint of the EC, the system of associate membership can hook up the countries having the necessary conditions with the EC train so as to make them gradually adapt and move through the transition period, and it is impossible to make such a process a very short one. Third, the European economy is growing slowly or stagnating. Previously, people hoped that the establishment of the SEM would strongly stimulate the EC economy to grow, resulting in a quick upturn in the economy. However, because of the impact of the unification of the two Germanies, the German economy has been in serious troubles. It has not only failed to play the "locomotive" role, but also become a "wagon" moving in the opposite direction. The economies of several large countries such as Britain, Italy, and France have all been in difficulties for their own reasons. The impact of the German economic policy—especially the policy of high interest rates—has created additional economic difficulties for those countries in the manner of "putting snow on top of frost." Economic difficulties have been a major reason for the stalling of the development of integration. Surely, it is by no means impossible to overcome those difficulties, but it will not be very easy to overcome them, either.

On the other hand, the expansion of the EC is inevitable, and it is predicted that negotiations can begin this year. But it is believed to be difficult for the newly accepted members to accept highly unified and highly supranational integration in terms of economic and political systems. This will doubtless create new obstacles to the building of the European Union, thereby making the conflict between deepening and widening even more prominent. Recently, Mr. Linder, the new Swedish ambassador to China, pointed out—while discussing the issue of Sweden's joining of the EC—that Sweden must accept all the EC principles, but would not give up its own principles. What he said was true, but the two are in obvious conflict.

The European economic situation was not good in 1992. The economy of the EC as a whole grew probably only at the rate of around 1 percent. Britain's situation regarding economic growth continued to worsen, and the expected recovery failed to occur. According to estimates, the gross domestic product for the entire year probably fell by 1 percent, and the unemployment rate reached over 10 percent. The German economy performed worse than expected. According to estimates, the growth rate was only 1 or 1.5 percent. The fiscal situation worsened, and debts increased drastically, probably totalling nearly 1.5 trillion German marks, while the inflation rate also

increased markedly. It was early believed that the French economy was in a better shape, but the actual growth was unsatisfactory, with the economic growth rate being estimated to have been only 1.5 percent. The deficit grew drastically, and the unemployment rate rose further, reaching over 10 percent. The economy of Italy which had been called a "growth miracle" during the 1980s was also in a slumber, and the growth rate decreased greatly, only reaching 1.2 percent. The fiscal deficit represented an astronomical figure, and the proportion of public debts to GNP was as high as 106 percent. Consequently, 1992 is called a year of continued deterioration or stagnation of the EC economy. As for East Europe, the economic declines of the various countries did not stop. Poland and Hungary, which had taken the lead in carrying out reforms, improved their economic situations, but their economic declines did not stop. The economic situations in the other countries were even worse. Especially, the Russian economy continued to deteriorate in a serious manner. The value of the rouble fell greatly, inflation got out of control, and production declined drastically, resulting in the year becoming the "most miserable year." When the worsening economic situations in those countries are also considered, the economic situation of Europe as a whole should be said to have gotten obviously worse.

There are many reasons for the economic doldrums in Europe. On the whole, the slumbering world economy (mainly the economies of the developed countries) has been a reason, and the fact that the EC economy itself has been in the trough phase of the cycle has also been a reason. But specifically, there have been many special factors. The first has been the effects of the German economic policy. After the unification of the two Germanies, to maintain social stability and promote economic development in eastern Germany, the German Government had to greatly increase its fiscal deficits, resulting in unprecedentedly high interest rates which led to its economic recession. The economic situation and the high interest rate policy of Germany have produced strong constraining effects on the economic development of other European countries. The second has been Germany's high interest rates which resulted in the turbulence on Europe's currency and financial markets. The countries had to sacrifice economic growth to maintain the policy of stable currency, thereby interfering with the implementation of the various countries' economic adjustment policies. The third has been the effects of the readjustment measures taken to reach the targets set in the Maastricht Treaty. For instance, the contraction measures taken by the Italian Government to reduce fiscal deficits have seriously constrained economic growth.

How will the situation be this year? It seems that the situation will be somewhat better than in 1992. It is generally believed that the U.S. economic growth will be at a higher rate than previously forecast, and that the rate can reach 3 percent. This will stimulate the growth of the world economy as a whole. People are not optimistic



about the growth of the German economy. But it looks as if Germany will reduce interest rates during the year, and this will contribute to the recovery and growth of other economies. Currently, the EC is formulating an economic stimulus plan, intending to spend dozens of billions of ECUs. This plan was given approval at last year's Edinburgh summit, and will play a positive role in promoting growth in Europe. Surely, the various countries are in different situations, and some countries are likely to continue to be in rather difficult situations. It is generally believed that the economies of the East European countries—especially Poland, Hungary, and the Czech Republic—will not further decline, and that the Russian economy will have a lower rate of decline.

Europe has become a turbulent and unstable "hotspot" in today's world, and as a result Euro-pessimism has resurrected again. In my view, it is not proper to be pessimistic about the European situation. The problems facing Europe are partial and structural in nature. There will not be a general war in Europe. The European economy has growth potential and is equipped with the forces to push the economy to grow. Perhaps, the current difficulties can be turned into propelling forces, which will push the countries to "seek common ground on more important issues, while retaining differences on less important issues," thereby formulating bold practical measures.

**Wang Jincun (the Institute of World Economics and Politics of the Chinese Academy of Social Sciences):  
The economic situations in countries of East Europe and Central Asia in 1992, and prospects for 1993**

The countries of East Europe and Central Asia are all going through social and economic transitions, that is, the transition—in the political sphere—from one-party systems to multi-party "parliamentary democracies" and the transition—in the economic sphere—from planned economies mainly based on state ownership to market economies mainly based on private ownership. Some countries are also faced with the transition from unified states to separate independent national states. Such transitions also mean drastic social changes, and have brought about various contradictions and conflicts. The various countries are all in deep social and economic crises.

The common features of the economic situations of those countries in 1992 were: continued decline in production and further deterioration of people's lives. But development was uneven, and those countries can be put into the following four categories.

In the first category are Hungary, Poland, and the Czech Republic. Those countries have basically completed political transition, and the political situations are relatively stable. The transition to market economy started rather early, and has developed quickly. The national economies, while in crises, are showing some signs of improvement, that is, while the economies are still experiencing negative growths, the rates of negative growth have fallen. For instance, the GNPs of the three

countries in 1991 decreased by 9.7 percent, 9.2 percent, and 15.3 percent respectively over the preceding year, but are estimated to have decreased by 2.0 percent in 1992, 1.0 percent, and 5.0 percent respectively over the preceding year. In addition, the three countries have achieved good results in such areas as market-oriented reforms, lifting price controls, "denationalization," currency stabilization, securing foreign investment, and foreign trade.

In the second category are countries such as Bulgaria and Romania. Here, while political transition has basically been completed, there are still intense political conflicts and the situations are far less stable than in the three countries discussed above. Economic transition also started later than in the three countries discussed above, and the economic situations are not as good as in the three countries discussed above. The rates of negative economic growth have decreased, but are still high. For instance, the GNPs of the two countries in 1991 decreased by 17.0 percent and 14.2 percent respectively over the preceding year, and are preliminarily estimated to have decreased by 10 percent and 8 percent respectively in 1992.

In the third category are the Russian Federation, the other countries of the former Soviet Union, and Albania. Those countries have not completed political transition, and the political situations are very unstable. Economic transition has started, but is being seriously disrupted by political and power struggles. The national economies are adversely affected by both political turbulence and economic transition. 1992 was the peak year in terms of the overall decline of social production. For instance, in 1991, the GNP of the former Soviet Union decreased by 17 percent over the preceding year, and it is preliminarily estimated that the GNPs of the Russian Federation and the other countries all decreased by around 20 percent (18-24 percent) in 1992.

In the fourth category are such countries as the countries of former Yugoslavia as well as Azerbaijan, Armenia, and Tajikistan of the former Soviet Union. Those countries are enmeshed in ethnic and religious conflicts and wars, and have not really started economic transition, while their national economies are already experiencing large negative growths. Their GNPs all decreased by 30-40 percent in 1992.

An overall analysis of the economic situations in East Europe and Central Asia shows that there exist the following trends:

First, all those countries have basically determined their directions in regard to political and economic development—especially economic development. The various political forces in each of those countries are still fighting each other, and there will be leadership changes in some countries. But the process of political and economic transitions discussed above will continue, and changes in direction are unlikely in the near term. In most of those countries, struggles and debates will be basically about

the approaches and methods used to achieve the aforementioned transitions, and none of the major political forces has challenged the direction of the transitions.

Second, although some countries have used the "shock therapy approach," thereby advancing faster, while other countries do not use the "shock therapy approach," thereby advancing more slowly, the economic reforms carried out in all those countries are going in largely the same direction and the methods used are largely similar to each other; that is, reforms are generally in the category of "radical" or "drastic" reforms. The "shock therapy approach" is only a temporary approach to reforms, and cannot be used as a criterion for judging the direction and nature of reforms.

Third, whatever approaches are used, such "radical" or "drastic" reforms inevitably entail a long or short period of destruction. First, to achieve the transition from an economy mainly based on state ownership to an economy mainly based on private ownership, it is necessary to seek and create owners in the absence of actors possessing ownership. This process cannot be completed in a short time. The countries have all encountered many difficulties in the process of "denationalization"—especially of the large enterprises. Thus, there would be an "economic-actor vacuum" for quite some time, and many enterprises would be in a situation of "being ownerless" or "being under trusteeship." Second, there would also occur an "economic-regulation vacuum" in the transition period. As the preexisting management organs and planning system have been thoroughly destroyed, and as at the same time market mechanisms are unlikely to be formed shortly, it would be difficult to prevent the national economy from experiencing a certain degree of disorder and anarchy. Third, there would also occur a "social-regulation vacuum" in the transition period. That is, the society as a whole does not have a singular set of wills and goals; various political forces engage in confrontation and struggle; and there are inequality between the rich and the poor, unemployment, ethnic and religious conflicts, etc. Thus, it is unlikely that a government with sufficient prestige and authority can be formed in the country concerned for some time. All this has been an important reason why those reforms in the form of "drastic changes" would inevitably bring about misery and destruction. However, such "drastic changes" have been exactly the result of the fact that there had been "no changes" in those countries for a long time.

Fourth, the destructive factors discussed above have surely been an important reason for the rapid declines in the economies of those countries. However, there are also some objective factors in addition to those factors discussed above. First, the national economies of those countries had already shown signs of crisis before the drastic changes. Social production had already been in decline, and the various economic contradictions had developed to the point of being likely to lead to overall crises. Second, many countries have been adversely affected by the dissolution of unified states and the

dissolution of the Council for Mutual Economic Assistance [CMEA]. For instance, in 1992, the countries of the former Soviet Union each suffered a social-production decrease of around 8 percent just because of the loss of economic ties caused by the dissolution of the Soviet Union and the CMEA.

Fifth, the direction of the those countries' economic transition is defective in some aspects, but also contains some rational elements. First, moving toward market economy is the overall direction of the development of the world economy. As the practice of economic development around the world has shown, the market mechanism is not perfect but irreplaceable, and represents the most efficient way of allocating resources and regulating the economy. The ideas of "denationalization" and "privatization" which are used as slogans are even more defective, and it is impossible to put those ideas truly or entirely into practice. In terms of the reform plans used by the countries, the plan which is most likely to produce practical results is to let the following three categories of enterprises each account for one-third of the national economy: individual operators and small private enterprises; various cooperative, partnership, and joint-stock enterprises; and the quasi-state enterprises which have become joint-stock companies, which have changed their operating mechanisms, and which are mainly based on state assets. Such a situation will be merely a situation of coexistence of multiple economic sectors with different ownership statuses under the condition of the private sector being the dominant sector. The slogan of "privatization" cannot accurately reflect all the things that are involved in the process of changing the system of ownership of means of production and changing operational practices. The ownership structure thus formed would be far more rational than the structure characterized by the complete nationalization in the urban economies as existed in those countries.

Sixth, the economies of those countries are all going through a stage of crisis and disorder, but the situations of different countries are different from each other. In some countries, there is order amid disorder, and in some other countries, there is disorder amid liveliness. But most of those countries are becoming more stable, while experiencing disorder. Not only have the national economies of the countries in the first category shown signs of improvement, but the countries in the second and third categories have also seen some positive developments, while experiencing crises and disorder. Those developments are: that the practice of exclusive state monopoly and direct state management has been terminated; that the national economies are moving toward being based on the coexistence of, and competition among, economic sectors with different ownership statuses and different business modes; that the pricing system which had been used for a long time, which was very irrational and rigid, and which people had not dared to touch for a long time, has been abolished, while markets—including consumer goods markets, production means markets, capital markets, labor markets, and

science and technology markets—are all in the process of being formed; that people have stronger entrepreneurial drives and a stronger sense of commodity economy, while the tendencies to depend on the state and to eat from the big pot are being weakened; that the irrational industrial structures are being adjusted and that structures of a new kind which are oriented toward the external markets and serving the needs of the people are being gradually formed; and that the situation of dependence of state enterprises on state subsidies are being changed and that the enterprises are being forced to seek new ways to survive. In short, the national economies of those countries—except the countries and areas enmeshed in wars—are showing some signs of new vitality, while experiencing disorder and misery.

Seventh, except for the countries enmeshed in wars, the economies of most of those countries—during the transition process—would go through the following several stages. (1) The destruction period at the beginning of transition. During this period, the various destructive factors discussed above—especially the political destructive factors—are dominant in the sphere of economic development, and the national economy contracts drastically. This period lasts around one to two years. The countries in the third category as described above are now going through this period. (2) The period during which a new system starts to be created. At the start of this period the old system has already been abolished. During this period, the political situation is largely stable, and some elements of the new mechanisms are beginning to develop. Some destructive factors are still effective in the sphere of economic development, but positive factors have begun to develop. Consequently,

although the national economy is still producing negative growth, the rate would be markedly lower. This period lasts also around one to two years. Going through this period now are the countries in the first category, and in a certain sense, the countries in the second category as described above. The countries in the third category will enter this period on separate occasions in the next one or two years. (3) The stage where the new system gets formed in a preliminary way. At the start of this stage, the ownership-system reforms have been completed, and the "privatization on a smaller scale" has also been basically completed. During this stage, there would be much progress in the work of transforming the operating mechanisms of large state enterprises, a work which is centered on introducing the joint-stock system of various forms. Price controls would be completely lifted, and prices are getting more rational. Market mechanisms would be formed in a preliminary way. The economic decline would stop and a gradual upturn in the economy would begin. It is estimated that in the next one or two years Hungary, Poland, and the Czech Republic, moving first, and such countries as Bulgaria and Romania, following behind, will enter this stage on separate occasions. In this way, except for the countries in the fourth category which are enmeshed in wars, most of the countries of East Europe and Central Asia will complete economic transition in around four to five years. Former East Germany's transition period can be even shorter because of the strong West German economic and technological support. But this is a special case and thus not representative.

The following table can largely show the trends of economic development in those countries during the transition period.

GNP growth rates of major countries of East Europe and Central Asia (percent)

	1990 (actual)	1991 (actual)	1992 (estimate of GNP for the year)	1993 (forecast)
Hungary	-3.3	-9.7	-2.0	+1.0-0.0
Poland	-11.6	-9.2	-1.0	+0.5-0.0
Former Czech and Slovak Federal Republic	-0.4	-15.3	-5.0	-1.0-2.0
Bulgaria	-9.1	-17.0	-10.0	-4.0-5.0
Romania	-7.4	-14.2	-8.0	-2.0-3.0
Former Soviet Union	-4.0	-17.0		
Russia			-20.0	-10-15
Other countries			-18-24	-8-17

The table above shows that Hungary's economic decline during the transition period has been the smallest. This is so because in Hungary economic structural reforms went the furthest before the transition, while the country is ethnically homogeneous and enjoys relative political stability. The economic declines of Russia and the other countries of the former Soviet Unions during the transition period have been the largest. This is so because in those countries economic structural reforms produced the smallest results before the drastic changes. The gaps

between the preexisting systems and the requirements of market economy were the largest. Furthermore, the ethnic situations have been very complicated, and there have been the additional adverse impact of the dissolution of the Soviet Union. The countries of former Yugoslavia have not only been greatly adversely affected by the dissolution of the unified country, but also all—except Slovenia—suffer from ethnic conflicts and the destructions of wars. Thus, it is difficult to predict how those economies will perform. [passage omitted]



**Shi Min (the Institute of Asian and Pacific Studies of the Chinese Academy of Social Sciences):** In 1992, the economic situation in developing countries has been obviously better than in developed countries, but growth has been very uneven.

In 1992, when the economies of developed countries have been in a slumber, and while the economies of the former Soviet Union and East European countries have continued to decline, the economies of developing countries have grown significantly and the average growth rate can reach 3-4 percent, a rate which is at least double the developed countries' average rate (approximately 1.5 percent). However, growth has been very uneven across the developing countries.

The Asian developing countries, especially the East Asian developing countries and areas, have grown faster than the countries of other regions. China has taken the lead, increasing its economic growth rate to 12 percent in 1992 from 7 percent in the previous year. China's economic growth has produced positive effects on the economic growth of the countries and areas in the East Asian region—especially those in the surrounding areas. Hong Kong's growth rate will increase to over 5 percent from 4 percent in the previous year; Taiwan's growth rate can reach 6.3 percent; the ROK's growth rate will be around 5 percent; and Singapore's growth rate will be close to 6 percent. Under the situation of a sluggish global economy, the "four little dragons" will still be able to achieve an average growth rate of more than 6 percent which, though lower than that for the previous year, is nevertheless rather high. Although the ASEAN countries have been adversely affected by the economic slowdown in the developed countries, Malaysia and Thailand will still achieve growth rates of 8.5 percent and 7.5 percent respectively in 1992. Indonesia's growth rate will be around 6 percent. It is likely that the Philippines has also turned from having negative growth in the previous year into having a growth of 1-2 percent. The ASEAN countries as a group will achieve an average economic growth rate of over 6 percent, which is close to the rate for the "four little dragons." The South Asian region as a whole saw an average economic growth rate of only 2.7 percent in 1991, but will see an average rate of around 3.8 percent in 1992. In this respect, India saw a growth rate of 2 percent in 1991, but will see a rate of 3.5 percent in 1992. Pakistan has grown by around 6.5 percent in 1992. In 1992 the Asian developing countries, overall, have grown at the rate of 6 percent, which is higher than the rate of 5.8 percent for the previous year.

The economic situation of Latin American countries has been mixed in 1992. Because of political instability at home, Brazil and Peru will have negative economic growth rates. Especially, the economy of the big country Brazil grew only by 1 percent in 1991; in 1992, the economic situation has been chaotic, and there may be a negative growth of 3-4 percent, while the inflation rate is as high as over 800 percent. But most other Latin American countries have done quite well economically. For instance, the growth rates for Chile, Argentina,

Panama, the Dominican Republic, Uruguay, and Venezuela will all be above 6 percent. Thus, except Brazil which has been in a economic crisis, the Latin American countries will achieve an average economic growth rate of over 4.3 percent, and see an inflation rate of under 20 percent. If Brazil is included, the Latin American countries' average economic growth rate can still be nearly 3 percent, close to the rate for the previous year, and will be higher than the population growth rate for the second year in a row.

The African countries and several Central Asian republics of the former Soviet Union have the worst economic situations among the developing countries. Because of the impact of civil wars, drought, and the economic slowdown in the developed countries, the African countries have achieved an economic growth rate of only 2.4 percent in 1992, while the population has grown by 3.1 percent in the entire year. As a result, per capita income will continue to fall, resulting in a decrease of 1 percent. Many African countries have huge amounts of debts. The sub-Saharan countries have been in the most difficult situations. As their foreign debts have increased by 10.1 percent each year recently, in 1992 their debts totalled \$175.8 billion, which equals 106 percent of their GNP. Faring even worse than the other African countries has been Somalia where the civil war is going on without an end in sight, where large numbers of residents are suffering from famine, and where the United Nations has sent troops to intervene. The several Central Asian republics of the former Soviet Union have come to be considered developing countries by the international community, and they have been experiencing some political as well as economic instability, and will have a negative economic growth rate of over 10 percent in 1992.

On the whole, the developing countries have performed well in their development efforts in 1992, and the following are the several main reasons:

1. Economic reform and adjustment have produced results. For instance, in the Asian region, the Chinese economy has grown at a double-digit rate in 1992, mainly because it has speeded up the reform and opening to the outside world on the basis of the achievements produced through the economic readjustment carried out in the preceding several years. The amount of foreign investment completed has increased greatly during the year, and the amount is at least double the amount for the previous year, while foreign trade has grown by over 20 percent. The "four little dragons" of Asia have also been going through a new round of economic structural adjustment. Besides exporting the labor-intensive, and part of the capital-intensive industries regarding which they no longer enjoy comparative advantage through investing in other countries, they have also accelerated the development of their own knowledge-intensive and technology-intensive industries. In addition, while continuing the development of externally oriented economy which they are good at developing, they have also increased domestic demand, especially through



increasing public works investment, thereby greatly mitigating the adverse impact of the economic slowdown in the developed countries. Other Asian countries and Latin American countries have achieved progress of varying degrees in reform efforts such as market-oriented economic reforms, privatization efforts, and internationalization efforts, in addition to adjusting the industrial structure. Many Latin American countries have achieved prominent results in such areas as those of, especially, the adjustment of fiscal and financial policies and fighting inflation, thereby creating important preconditions for starting to achieve steady economic development.

2. The development of market diversification and regional cooperation. The developing countries and areas in Asia have achieved prominent progress in adjusting their product mix and market distribution. For instance, the share of exports to the United States in the total volume of exports from the "four little dragons" of Asia was approximately 35 percent in the mid-1980s, but fell to around 28 percent in 1991. At the same time, the share of exports to other countries has increased markedly. Especially, trade among the Asian countries and areas themselves has grown the fastest. In 1992, the ASEAN countries have continued to increase their exports. Both Thailand and Malaysia have achieved double-digit export growth. Such growth has been to a large degree dependent on the growth of trade within the Asian region. As a conspicuous example in this respect, the value of trade between China and the ROK has increased to around \$10 billion from \$5.8 billion in the previous year, representing a growth of 70 percent. Currently, the share of trade among the Asian countries (and areas) in the overall foreign trade carried out by the Asian countries (and areas) has increased from 30 percent in the 1970s and 45 percent in the mid-1980s to nearly 50 percent, approaching the level reached by the EC in the 1970s. At the same time, regional cooperation among developing countries has also developed markedly. For instance, the ASEAN countries, at their summit meeting held in January 1992, decided to establish the ASEAN Free Trade Area within five years. Close production and cooperation relations based on trade and investment have been formed, in practice, between the Chinese mainland, including the South China region, and Taiwan as well as Hong Kong, thus resulting in the formation of a growth triangle which has been internationally viewed as one of the most vigorous growth triangles in the world. Also active have been such regional cooperation organizations formed by developing countries as the Southern Cone Common Market composed of Brazil, Argentina, Uruguay, and Paraguay, the Caribbean Common Market, and the Central American Common Market in the Latin American region, the African Common Market long in existence in Africa, and the Central Asian Common Market.

3. Some changes in the external conditions, mainly the weak upturn in the U.S. economy and the fall in international interest rates, have also been helpful to developing countries' efforts to maintain export growth to

some extent and reduce their debt burdens. For instance, the Latin American countries have increased their exports by 4.1 percent in 1992, while their total debt has increased from \$426 billion in 1991 to \$435 billion, representing an increase of only 2 percent. The proportion of the total foreign debt to the region's GNP has decreased from 50 percent in the 1980s to around 40 percent at present. The fall in international interest rates has not only reduced the Latin American countries' debt-payment burdens, but has also led to some return flow of capital. In 1992, the Latin American countries have seen a return flow of capital totalling over \$50 billion. All this has been helpful to the recovery and development of the Latin American economy.

On the whole the economic situation of the developing countries will continue to improve in 1993. With regard to external conditions, the Western developed countries, except a few countries such as Germany, will get out of recession sooner or later. The developed countries' average economic growth rate will go back to over 2.5 percent, or be at least one percentage point higher than 1992's rate. This will be conducive to the growth of exports from the developing countries. On the other hand, economic structural adjustment, and reform measures taken in developing countries will also continue to produce results, and as a consequence the economies of many developing countries will function in a more normal manner. But in some developing countries, the inflation and population-growth rates remain too high, while the debt burden remains heavy. In addition, the protectionist tendencies on the part of developed countries will continue to hamper the economic growth of developing countries. A few countries where there are political instability and endless civil wars will surely become the major disaster-stricken areas among the developing countries. According to estimates, if extraordinarily large natural or man-made disasters do not happen, the developing countries will see in 1993 an average economic growth rate which will be higher than 1992's rate and which will continue to be higher than the developed countries' average growth rate.

**Zhang Sengen (the Institute of Latin American Studies of the Chinese Academy of Social Sciences): The Latin American economy is improving, but the "economic spring" has not arrived yet.**

Since the start of 1990, the Latin American economy has gradually shaken off the profound economic crisis that beset it during the 1980s, and has been recovering and growing. The GDP of the region as a whole has increased by 2.4 percent in 1992, after increasing by 0.3 percent and 2.7 percent respectively in 1990 and 1991. In this respect, the growth rates for Argentina, Chile, Venezuela, Panama, Uruguay, and the Dominican Republic are above 6 percent. Except for Brazil and Peru which have experienced negative growth, most of the other countries' growth rates have been kept at the 2.4 percent level. The runaway inflation that has haunted the Latin American economy since the early 1980s has continued

to be prevented from recurring. According to the preliminary report by the Economic Commission for Latin America, in 1992, the inflation rates for 16 Latin American countries do not exceed 20 percent, and the inflation rates for six Latin American countries do not exceed 10 percent. The annual inflation rate for Peru has fallen to 56 percent, the lowest in 15 years. Because of macroeconomic instability, the inflation rate for Brazil is estimated to be 700 percent in 1992. Because of the loss of control in Brazil, the inflation rate for the Latin American region in 1992 is higher than in 1991 (202 percent), but should not be regarded as extremely high if compared with the annual inflation rate of 1,186 percent in 1990. It is worth noticing that as capital inflow has speeded up, Latin America has finally relinquished its status as a net capital exporter, and has been a net capital importer for three consecutive years. The return flow of capital totalled \$24 billion 1990; \$40 billion in 1991; and \$43 billion in 1992. The amount of foreign exchange reserves for the region as a whole has increased from \$2.7 billion in 1989 to \$15 billion in 1992. Total investment in Latin America is close to the level of 1980 when the crisis had not begun. In addition, the proportion of the total foreign debt of the region as a whole to the region's GNP has decreased from 54 percent in 1982-1989 to around 40 percent in 1992. As Brazil and Argentina have reached agreement with the creditor banks on debt rescheduling, the negative macroeconomic impact of foreign debts on the Latin American countries has been reduced to some extent.

The economic recovery and growth in the Latin American region in 1992 have happened against the background of the second consecutive year of economic slowdown in the West and the sluggish growth in world trade. As the world economy has been sluggish, demand for primary commodities has been weak, and the prices have been falling, thereby seriously adversely affecting the export growth of the Latin American countries. The progress that Latin America has achieved in the past two years has been mainly due to their continued efforts to actively carry out continuing adjustment and reform, which have led to prominent achievements in curing stubborn economic diseases. Since the mid-1980s, most Latin American countries have carried out bold reforms of the preexisting economic system, development strategy, and economic functioning mechanisms, gradually changing from conducting import substitution under a high degree of protection into actively participating in international competition so as to promote export, and turning from depending on state capital and state intervention of an unusually high degree into giving play to the role of private capital and enhancing market mechanisms. The adjustments and reforms of the economic system and economic policies carried out in the Latin American countries have already produced positive effects. Chile, Bolivia, and Mexico have led Latin America in generating steady economic growth. Argentina is also fast advancing toward this objective. A new development model based on structural reforms is prevailing in those countries. Because of the reduction in

state intervention and the reform of the agricultural sector, the regions' fiscal and financial situation is improving continuously. In 1992, Chile, Mexico, and Brazil have produced fiscal surpluses. Argentina, Peru, and Uruguay have achieved a basic balance between fiscal revenues and expenditures. Most Latin American countries have kept control over their fiscal deficits. New taxation systems are being formed. Some countries have abundant foreign exchange, and exchange rates have fallen to some extent amid general stability, thereby producing demonstration effects on domestic prices. The implementation of trade liberalization policies and the adjustment of foreign investment policy have greatly enhanced the vitality of the Latin American economy. Multilateral international financial organizations and important Western industrialists have again become optimistic about Latin America.

Doubtless, the promising prospects for steady economic growth in Latin America are undeniable, but Latin America still faces a series of tough challenges. Some people believe that an "economic spring" has arrived in Latin America. In my view, it is necessary to adopt a cautious approach to forecasting future developments, and not to be too optimistic about economic prospects for Latin America in the 1990s.

(1) Aside from Chile, Bolivia, Mexico, and Argentina discussed above, most Latin American countries have not yet reached the basic objectives of economic adjustment and reform. Although some countries such as Venezuela, Colombia, Brazil and Uruguay have carried out intermittent economic adjustments and reforms, but the achievements have not been prominent, with the macroeconomic environment remaining unstable. Some other countries such as Peru, El Salvador and Nicaragua are still suffering from economic recession, and the reform of the economic system has just been put on the agenda. It will still take several more years for most Latin American countries to basically stabilize their own macroeconomic environment, and the economic prospects for the region as a whole will not be clear until the second half of the 1990s. The rate of growth of per capita GDP for the Latin American region was 1.9 percent in the 1950s; 2.8 percent in the 1960s; 3.1 percent in the 1970s; and -1.1 percent in the 1980s. The 1990s will see a better situation than the 1980s, but it may be unrealistic to hope to go back to the levels reached in the 1950s, 1960s, and 1970s.

(2) The Brazilian economy has not yet come out of the "cold winter." Brazil suffered a great deal from economic recession during the 1980s. In that decade, its GDP grew, cumulatively, by 17.2 percent, but its per capita GDP fell by 5.5 percent. In the 1990s, the economy declined for three consecutive years. The Brazilian economy occupies an important position in Latin America. Its GDP exceeds the sum of the GDPs of Mexico, Argentina, Venezuela, and Chile. Brazil has encountered various unimaginable difficulties in carrying out adjustment and reform of its closed domestic

market mechanisms. In the past five years, six stabilization plans and three currency reform plans have been adopted, but macroeconomic stability has not been achieved as of now. In March 1990, the Collor government formulated the New Brazil Program to guide economic development in the 1990s, and was determined to join, with 20 years' efforts, the ranks of developed countries by the year 2010. With the step-down of President Collor in December 1992, the work on this grandiose Brazilian plan based on the goal of building a "social-market economy" has suffered serious setbacks. The relation between the Latin American economy and the Brazilian economy can be described as entailing "common prosperity and common hard times." In 1929-1983 Brazil's per capita GDP grew by 532 percent, leading the developing countries. If Brazil is unable to regain that kind of growth momentum, then the "economic spring" may not be able to arrive in Latin America shortly.

(3) The political situation of the Latin American region will not always see smooth development. As ethnic and religious conflicts are not pronounced, the political situation of the Latin American region is relatively stable if compared with the situations in other developing regions and countries. But since the beginning of the 1990s, there have been some changes in the situation, as the transition from the old to the new economic model has advanced. With continuing reforms, the traditional upper classes—including the industrial groups enjoying the protection given by the practice of import substitution, trade union elites, government bureaucrats, and politicians—are unwilling to give up their vested interests, and are trying to influence political development in the various countries through all kinds of means and channels. On the other hand, some Latin American countries' adjustment programs which are based on completely adhering to neoliberalism have seriously adversely affected the economic interests and social status of groups in the middle and lower social strata, leading to severe social turbulence. The fact that Brazil, Venezuela, and Peru saw political turbulence in 1992 testified to that argument. The 1980s represented the most difficult decade for the Latin American economy in the postwar era. Nevertheless, it was also during the "lost decade" that almost all the Latin American countries completed the transition from military rule to civilian rule, thereby making themselves parliamentary democracies. Except for the wars between leftist guerrillas and government troops in the Central American region, the Latin American region was relatively stable. Since the beginning of the 1990s, however, while the Latin American economy has been improving, the political situation has become more turbulent. This is very through-provoking. In my view, the main reason in this respect has been that continuing development of political democratization in Latin America has come to touch such matters as those of the electoral system, parliament system, party system, and characters of rulers. In addition, in Latin America, the share of people living under the poverty line in the general population increased from

22.4 percent in 1985 to 25.5 percent in 1990. In Latin America, the inequitable distribution in society has become a serious political and social problem affecting the region as a whole in the 1990s. Those problems discussed above, if not handled well, will inevitably affect the smooth development of the economy.

(4) The negative impact of the theory of neoliberalism on the economies of Latin American countries is becoming increasingly obvious. The economic adjustment and reform plans of the Latin American countries are in many respects influenced by the theory of neoliberalism. Some countries disregarded their own countries' special conditions and characteristics in formulating such plans, and have tended to adopt radical approaches in the process of implementation, resulting in adverse impact on their own economies. The case of Venezuela stands out in this regard. Upon coming to power in February 1989, the Perez government adopted an economic adjustment package, which was formulated almost exactly as the IMF had suggested; market principles were adhered to unconditionally, and there were even such proposals as that to privatize the oil industry completely. The economic policies of the Perez government finally led to two military coups in Venezuela in 1992. It was a great irony that Venezuela had enjoyed relative political and social stability since 1958. The privatization of state enterprises which has been emphasized in neoliberalism-guided programs is not easy to achieve. Privatization involves such sensitive matters as those relating to national and social interests, employment, and labor issues. A small careless step can lead to large negative consequences, thereby adversely affecting social and economic development. Privatization programs have already created some chaos in Latin America. Recently, based on the outcome of a referendum, Uruguay stopped the selling of state enterprises. The new Brazilian Government headed by Itamar Franco decided to temporarily suspend the implementation of the privatization plan. Colombia has also slowed down privatization efforts, so as to minimize the discontent on the part of groups in the middle and lower social strata.

(5) It will be difficult to change the backward state of research and development [R&D] in the Latin American countries by the end of the 1990s. New technological revolutions demand that countries give priority to R&D objectives in carrying out overall planning, but up to now none of the Latin American countries has spend more than 1 percent of its GDP on R&D. In the Latin American countries, the share of scientists and engineers in the general population is very small. In Uruguay which has the largest share in this respect, among 10,000 people, there are only seven scientists and engineers. The number of scientists and engineers among 10,000 people is four in Brazil; three to four in Chile; and three to four in Argentina (the number is 50 in Japan, and 33 in the United States). In 1989 Latin American imports totalled \$81.3 billion, of which technology-intensive goods accounted for \$30 billion; and the main importing countries were, in amount-based order, Mexico, Brazil,



Chile, and Colombia. Because of scientific and technological backwardness, Latin American is not able to provide itself with over 40 percent of the capital goods needed. In 1966 when the Asian Development Bank was opened, Asia's per capita income was only one-third of that of Latin America, but after 20 years, Latin America is now obviously lagging behind. Compared with East Asia, Latin America is lagging behind in terms of both the model of economic development and the quality of people. Latin America is trying to improve the situation in relation to the former issue, but seems to have not put the latter issue on the agenda yet. It is thus not surprising that a well-known futurist advocates that Brazil concentrates its investment on agriculture, education, and science and technology, with each area receiving one-third of the total investment. This is a very insightful suggestion.

**Zeng Zhihua (the Institute of World Economics and Politics of the Chinese Academy of Social Sciences):  
The economic situation in neighboring countries**

The following is largely a brief analysis of the economic situations, and the causes of growth or recession, in Japan, Southeast Asian countries, and South Asian countries.

The Japanese economy began to gradually slow down toward the end of 1990, and entered the phase of adjustment in the third quarter of 1991. The adjustment is now continuing. The adjustment has involved such things as the adjustment of the amount of inventories, the adjustment of inventories, and the adjustments of the financial system, securities business, and enterprises' financial structure, adjustments carried out after the bursting of the "bubble economy." As a result, the Japanese economy is stagnating. In 1992, the Japanese economy has grown at the rate of only 2 percent, which is markedly lower than 1991's growth rate of 4.5 percent, and which is also lower than the official-forecast rate of 3.5 percent. It is believed that there will be an upturn in 1993, but the growth rate for the entire year will be no higher than 2.5 percent. The direct cause of the 1992 Japanese economic recession has been sluggish private consumption and sluggish private capital investment. In regard to private consumption, on the one hand, the recession has made enterprises cut production, resulting in the slow growth in employee incomes and the fall in consumer spending; on the other hand, the fall in stock prices has led to "negative returns on assets," resulting in a situation where Japanese families have each suffered on average an actual loss of 10 million yen in assets (equal to two to three years' income of an ordinary office worker). These two factors have reduced the willingness to engage in private consumption, resulting in a "weak market." At the same time, an even more important cause of the 1992 Japanese economic recession has been the large decline in private capital investment. In 1992, because of the existence of large amounts of surplus equipments, capital investment in Japan has been characterized by the following two tendencies: First, besides the manufacturing sector, the nonmanufacturing sectors

have also seen a large decline in capital investment. According to a survey by the Ministry of International Trade and Industry, the planned capital investment in the manufacturing sector for 1992 is 11.9 percent less than the actual investment in the previous year. The nonmanufacturing sectors, excluding the electric power sector, have also seen a reduction of 1.5 percent. Second, investment slowdown has spread from small- and medium-sized enterprises to large enterprises.

East Asia remains the most economically vigorous region in the world. Its average growth rate for 1992 may be around 6.8 percent, which is much higher than the average growth rate (approximately 1.5 percent) of the developed countries for the same year. In Asia, the "four little dragons" are now conducting a new round of strategic adjustment and economic structural adjustment. Some of the countries have adopted a series of measures to prevent their economies from overheating. As a result, the "four little dragons" have achieved an average economic growth rate of 6.6 percent which is slightly lower than the rate for the previous year. The ROK's economic growth rate was 9.3 percent in 1990, and has fallen to 6.6 percent in 1992. Consumer prices have begun to stabilize, rising by 7.2 percent in the first quarter and by 7.0 percent in the second quarter, resulting in a slowdown in the rising of prices. Prices in Taiwan are also stabilizing in general. The economic growth rates for the two are estimated to be around 7.0 percent in 1993. Hong Kong has grown by approximately 6 percent in 1992. The annual inflation rate has fallen to approximately 9.5 percent from 12 percent in 1991. The booming Chinese economy, in addition to the increases in goods and labor, service exports, in private consumption, and in factory and capital investment will ensure that the Hong Kong economy will keep growing vigorously in 1993, but a double-digit inflation rate can occur. The economies of the ASEAN countries are also undergoing adjustment. In 1992, those countries have achieved economic growth rates slightly lower than the rates for the previous year, but kept their strong growth momentum. According to IMF estimates, the ASEAN countries' economic growth rate for 1992 may reach 6.5 percent, with the growth rate being 8.7 percent for Malaysia; 7.5 percent for Thailand; 6.4 percent for Indonesia; and 6 percent for Singapore. Because the ASEAN countries adopted a series of fiscal and monetary measures to ensure a basic equilibrium between aggregate supply and aggregate demand, the inflation rates all declined to some extent. The inflation rates for Thailand, Singapore, and Malaysia have been kept between 2.2-4.7 percent. Indonesia's rate has fallen to 7 percent from 9.5 percent last year. Philippines' rate has fallen from 18.7 percent to 9 percent. During 1992, Vietnam's economic situation has also undergone positive changes. Compared with the previous year, its national income has increased by 5.3 percent; the value of industrial output has increased by 15 percent; the value of industrial and agricultural output has increased by 4.4 percent; and exports have increased by 19 percent.

In addition, important progress has been made in combatting inflation and the economic crisis. Its inflation rate has fallen from 70 percent in 1991 to 15 percent in 1992.

The main causes of the rapid economic growth in the East Asian region have been: First, economic reform and adjustment have produced prominent results. Second, intraregional trade and investment have grown rapidly, and regional cooperation has further developed. According to statistics, intraregional trade accounts for around 50 percent of the overall trade of this region. Third, exports have been upgraded, and the share of manufactured goods has been continuously growing, while market diversification is also being enhanced. Fourth, the rising of consumption levels and the large-scale infrastructure construction have stimulated the increase in domestic demand. Fifth, the rapid growth of the Chinese economy has produced positive effects on neighboring countries.

Of course, the rapid growth in the East Asian region has also created some problems such as the overheating of the economies which has resulted in shortages with regard to infrastructure, skilled labor force, and resources, leading to the rising of production costs, the weakening of competitiveness, and the decline in economic efficiency, as well as such problems as the overheating of consumption which has led to the increase in inflationary pressures. Furthermore, the practice of giving exclusive focus to growth, while disregarding social development, has also created other destabilizing factors such as the deterioration in the income distribution situation, the increase in the gap between the rich and poor, and political instability. Consequently, some East Asian countries such as the ROK, Malaysia, and Singapore have reduced their growth rates to some extent, so as to ensure the steady development of their national economies. Such is a positive step.

The situation of the South Asian region has begun to improve after over a year's adjustment. The economic growth rate for 1992 is estimated to be higher than the rate of 2.7 percent for the previous year, and to be around 3.5 percent. The inflation rate has also begun to fall. For India, this year has been the most successful year in terms of its continued efforts to carry out economic reforms. By the end of the year, the inflation rate fell to around 9 percent, and foreign exchange reserves reached \$6.5 billion. Industrial production has come out of stagnation and is estimated to have grown by 4.5 percent, which is much higher than last year's rate of -0.1 percent. The growth rate for the national economy as a whole is likely to be 3-4 percent which, though representing a failure to reach the target of 5.6 percent, is better than last year's rate. Pakistan has continued its steady economic development during this year, and its GDP has grown by 6.4 percent. Because of the implementation of the new agricultural policy, grain output totalled 15 million metric tons, thus creating a historical record. Exports increased by 20 percent, and export earnings totalled \$7 billion, while foreign

exchange reserves increased to \$1.021 billion. In addition, foreign investment also increased rapidly. Up to now, businesses from 43 countries have invested in Pakistan, with the investment totalling \$1 billion.

The main causes of the improvement in the economies of the South Asian region have been: The governments of the countries have given great attention to ensuring domestic political stability so as to provide a good environment for economic development; have speeded up reforms, implemented a series of new industrial policies, investment policies, foreign trade policies, and adjusted their monetary and financial policies; have reduced state intervention in, and state control over, the economy, and proceeded with the privatization of public-owned enterprises, so as to let market mechanisms play a greater role; have formulated preferential policies to attract foreign investment, etc. But it should also be noted that the economies of the South Asian region still have to deal with many unfavorable factors such as nationality disputes, ethnic and religious conflicts as well as the resultant political crisis and social turbulence which hamper normal economic development, heavy foreign-debt burdens, large trade deficits, shortage of capital and resources, enterprises' low economic efficiency, and products' lack of competitiveness. [passage omitted]

**Zou Xiaoyan [6760 1420 3601] (Bank of China):  
International money markets are unstable.**

Within the past year, the international financial situation has undergone a great change, the features of which can be summed up as follows:

#### **1. In Economic Competition, All Countries Have Adjusted Their Monetary Policies**

The unevenness of world economic development, with differing economic situations in all countries, has forced all countries to adopt "self-serving" monetary policies to adapt to their domestic economic realities. Take the three countries of the U.S., Germany, and Japan for example. For many years in the United States, the Bush administration practiced a low-interest-rate monetary policy, which lowered interest rates from 3.5 percent to 3.0 percent, as well as reducing the federal-fund interest rate to 3.0 percent, for a historic record low. While the U.S. tried to use this to achieve economic growth, it had very little effect. Germany's high-interest-rate policy increased the difference between the dollar and the German mark, so that the dollar declined for a time. In 1992, the value of the dollar fell to 1.3860 marks on 2 September, and to 119.50 yen on 23 September.

After reunification, Germany experienced a predicament in which economic decline and inflation coexisted. To curb inflation, Germany has always practiced a high-interest-rate policy. In July (1992), while Germany's central bank raised its discount rate from 8 percent to 8.75 percent, and its secured-loan interest rate to 9.75 percent, this certainly did not basically solve the problem. For the three months of July, August, and

September, Germany's inflation rate was 3.2 percent, 3.5 percent, and 3.6 percent, respectively, all higher than the target level of 2.0 percent set by Germany's central bank (the Bundesbank).

As Japan's economy experienced negative growth in the third quarter (1992), it was also in a process of structural adjustment. But it was hard for a low-interest-rate monetary policy to take effect in the short-term. In addition, its economy had not yet completely recovered from its stock-market collapse and sharp real estate market slump. So on 28 August, the Japanese government announced an economic-stimulus package worth 10.7 trillion yen, in an attempt to spur economic recovery through government fiscal expansion.

As the three countries of the U.S., Germany, and Japan are still the engines of the world economy, their economic growth rates naturally have a sharp impact on the economic growth of other countries and regions.

## **2. Supply and Demand Conflicts on International Capital Markets Are Growing Increasingly Sharper**

Since the end of the Gulf War, certain mideast countries have changed from capital-exporting countries to borrowers. Others, such as the developing, CIS, and Eastern European countries, also need huge amounts of capital for economic recovery and development. But the political instability, economic decline, reduced foreign exchange earnings, and lower foreign exchange reserves in these countries make it hard for them to raise on international capital markets enough funds which, even if they can, are quite high in cost. Capital demand in developed countries is also increasing steadily, with the U.S. alone needing up to \$100 billion a year to make up its fiscal deficits. Meanwhile, as Western savings interest rates are down and fund sources are reduced, international commercial banks are steadily impacted by bad loans. In addition, as these banks have to reach the minimum year-end capitalization-ratio criteria set by international clearing banks, they are unwilling to expand credit unchecked. This has caused the phenomenon of a capital return-flow to the major capital-supplying countries. This capital supply and demand conflict is bound to cause a fund shortage on international capital markets, thus affecting world economic growth.

## **3. Foreign Exchange Markets Are Unstable**

In 1992, the European monetary system experienced its greatest crisis since its emergence in March 1979. In two-plus months at year's end, the European-currency Exchange Rate Mechanism was forced three times to adjust the currency central-exchange rates of its member nations. Moreover, the member-nation currencies of the British pound and the Italian lira were forced to withdraw from the Exchange Rate Mechanism, with the nonmember-nation currencies of the Finnish markka, the Swedish krona, and the Norwegian krone also becoming unlinked to the European monetary unit, to float freely. While this crisis in the European-currency

Exchange Rate Mechanism was apparently the effect of market forces being stronger than the concerned countries' policies and central bank might, it was essentially the concerned countries' currencies being at odds with the European-currency Exchange Rate Mechanism due to the differences in the economic might of the various countries. So when a country found it hard for its currency to follow the higher central exchange rate to maintain Exchange-Rate-Mechanism stability, it was forced to either devalue or divorce its currency from the central rate to escape the restraints and revive its national economy.

The essential cause of this foreign-exchange-market instability is Germany's high-interest-rate, anti-inflationary monetary policy, with the appreciation of the German mark increasing the pressure on other countries to devalue their currency exchange rates. This pushed the various member nations in the European monetary system into relative economic recessions, making it hard to maintain the stability of the currency Exchange Rate Mechanism or to avoid instability.

## **4. The Mercurial Changes in Western Stock Markets Cause Recession**

Foreign-exchange market instability also has a certain impact on Western stock markets. Relatively speaking, U.S. stock markets have been in a rising trend ever since early 1992 due to business and banking reorganization and the Federal Reserve Bank's adherence to a low-interest-rate monetary policy. While New York's stock market Dow Jones industrial stock average remained basically around 3,200 for 1992, European stock markets remained in recession. As Germany's interest rates stayed high, foreign investment in the German stock market shrank and remained soft. Since June, the Frankfurt stock market index has dropped from 2,000 to below 1,700. The Japanese stock market remains in a slump. The Nikkei index began a sharp decline in early 1992, having fallen to 14,650.74 points by 19 August, breaking below the 15,000-point lifeline needed to maintain financial operations, and being down 61.9 percent from its high during Japan's all-out "bubble-economy" period. The major causes of Japan's sharp stock market decline were economic recession, stock market supply exceeding demand, and certain other factors, which sapped investor confidence. The Hong Kong stock market remained a "bull market" for the first half of 1992, with the Hang Seng index by midyear at a high of more than 6,000 points. But in the last half of 1992, Hong Kong Governor Patten's trotting out of a political reform plan in contradiction to the "Sino-British Joint Declaration" touched off a clash between China and Britain over Hong Kong's future, so that the Hang Seng index slipped disastrously from 6,440.83 points on 12 November to 4,948.83 by 3 December, or 23 percent. The stock markets of surrounding countries and regions are affected by Hong Kong's stock market, rising and falling with it. The Asian-Pacific region has become the world's briskest investment site.



In summary, 1992 was a bumpy and uneven year, with the economic policies of all countries growing more autonomous and independent, and substantial progress being made in regionalization and integration. As the world political and economic situation will see new turbulence and division in 1993, which will be bound to bring corresponding changes to international money markets, it can be predicted that the international financial situation will see the following development trends in 1993:

#### **I. International Banking Will Continue To Carry Out Financial-System Reforms**

In the new year of 1993, to promote economic growth in all countries, international banking will further reform in the following fields:

1. According to the capital-assets ratio requirements of the Basel Accord, it will strive to increase capital reserves, working to achieve the aim of increased capital through means, such as bank consolidation, mergers, and assets securitization, without causing a drop in profits.
2. All EC banks will steadily build and improve their domestic banking systems, taking the route of joint development through becoming more multipurpose and industrialized in ways, such as merging international financial institutions, and combining banking with insurance.
3. It will use all financial-institution accounts in central banks to reform the money-payments system to change the interbank payments system, thus providing wider and quicker service to economic operations.

#### **II. European Currency Exchange Rates Will Tend To Be Lower**

While interest rates in certain countries, particularly the U.S., have bottomed out, so that more easy money would set off a recurrence of inflation, interest rates will not rise sharply in the interests of ensuring a steady economic recovery. While Germany's high-interest-rate policy has a certain impact in curbing inflation, it also creates economic recession. So faced with an increasingly intensifying economic crises, once inflation is curbed, the German central bank will lower interest rates to stimulate the economy. In addition, as Germany's high interest rates are also the key cause of the instability in the European-currency Exchange Rate Mechanism, the European countries will demand that Germany lower its interest rates to stimulate their own national economies and stabilize their currencies. So Germany will be forced to lower its interest rates to stabilize the European-currency Exchange Rate Mechanism, which will bring a new wave of lower interest rates to all European countries.

#### **III. The Diversification of Financing and Financial Creativity on International Fund Markets Will Promote Further Development of Capital Markets**

In general, certain Western developed nations will remain the major borrowers on capital markets, while developing countries have less economic might and limited fundraising capability and means, so will be unable to satisfy their fund demand, which will affect their economic growth.

Along with the slow economic recovery and interests rates remaining stably low, Western stock markets will recover after adjustment, with stock prices rebounding somewhat. As all member nations in the European-currency Exchange Rate Mechanism have large economic disparities, they will be bound to readjust in line with their respective economic might, so that exchange rates can be set to reflect real economic conditions.

**Tong Shuxing [4547 2579 5281] (Foreign Economic Relations and Trade University): The world trade growth rate was higher in 1992 than in 1991.**

World trade in 1992 operated in the circumstances of the world economy making a slight recovery from recession, the obvious feature of which was a higher growth rate for world trade than in 1991. World export volume at prevailing prices for the first six months of 1992 was \$1.81566 trillion, up 4.9 percent from the same period in 1991. So annualized, world export volume reached \$3.63132 trillion for 1992, up 4.3 percent from 1991. As world export volume had grown only 2.6 percent in 1991 over 1990 due to the world economic decline, the development trend shows that world trade has acquired recovery momentum. But world export volume had grown at a high rate of 12.6 percent in 1990, which rate fell sharply for 1991. So while this growth rate rebounded considerably in 1992, it remained lower than the average annual growth for the decade from 1981 to 1991.

In 1992, world imports grew less than exports. World import volume for the first six months of 1992 was \$1.86133 trillion, up 3.4 percent from the same period in 1991, for an annualized import growth rate of 3 percent. As the Western industrialized nations account for 71 percent of world import volume, the slow growth of their economies remains the key factor affecting world trade. World trade conditions were better in 1992 than in 1991 because the Western economies rebounded somewhat. While world trade grew faster than the world economy because of the faster pace of internationalization of all countries' production, commodities, capital, and technology, the slow growth of the world economy still slowed the growth of world trade.

Another marked feature of world trade in 1992 was that growth was notably uneven as to uneven growth among regions and countries, and a severely uneven trade shortfall for a series of countries.

Trade conditions in 1992 were worst in Eastern Europe and the former Soviet Union. In the first half of 1992, these countries' imports were down 10.1 percent and their exports were down 8 percent, with their sharp drop in production being accompanied by trade falling into a long-drawn-out and deep crisis. But among the Eastern European countries, things were slightly better for Poland, Hungary, and Czechoslovakia, with their export trade with the West showing a recovery and expansion momentum. The highest foreign trade growth in 1992 was in the Asian developing economies, where the economic growth of these countries and regions was also reflected in trade. For the first six months of 1992, their exports were up a sharp 12 percent, while their imports grew 9.7 percent.

While the industrialized developed countries all experienced somewhat of a foreign trade recovery in 1992, their exports grew slightly more than their imports. The problem was that U.S. export growth remained slower than import growth, with the situation in Japan being exactly the opposite, in that export growth was powerful, while imports experienced negative growth. The EC countries saw general foreign trade growth in 1992.

The unevenness of trade growth among all countries was clearly reflected in their trade differences. A series of countries experienced huge trade deficits, while certain others saw trade surpluses. The U.S. trade deficit grew in 1992. While the U.S. trade deficit was \$5.799 billion for January 1992, it reached \$9.005 billion for August, so that the U.S. trade deficit for the first eight months of 1992 was a high of \$51.891 billion. During this same period, trade deficits reached \$25.31 billion in Spain, \$7.329 billion in Portugal, and \$5.718 billion in Austria. The trade deficit for the first nine months of 1992 was \$22.8 billion in Britain, during which period Italy and Belgium also saw large trade deficits. While a series of Western nations sustained large trade deficits in 1992, Japan and Germany achieved considerable trade surpluses. For the first eight months of 1992, trade surpluses reached a high of \$68.438 billion for Japan and \$14.018 billion for Germany.

The uneven trade growth and imbalanced trade gap among all countries reflect the growth and decline of their respective commodity and enterprise international competitiveness, which has become the direct cause of the sharpening international trade competition and friction. The increase in trade protectionism presents many obstacles to imports, while the rise of world trade regionalization and grouping, and the unending bilateral and multilateral trade negotiations, are an expression of sharpened competition and trade friction.

The regionalization and grouping in today's world trade is the cause of much attention, which phenomenon intensified further in 1992. The EC, which accounts for about 40 percent of world exports and imports, has evolved into a large uniform European market, sharply increasing the degree of integration of the European

economy. Mutual trade among Western European countries now makes up 60 percent of their foreign trade. As the EC is achieving a free flow of commodities, labor, personnel, and capital within the region, its internal trade ratio is going to grow further. In a mutual confrontation with the large uniform European market, the U.S., Canada, and Mexico signed in 1992 the North American Free Trade Agreement (NAFTA), which provides for a gradual lifting of tariffs and other trade-barrier restrictions to achieve free trade. The three countries of the U.S., Canada, and Mexico combined have a population of 360 million and a GDP of over \$6 trillion, which two figures are about the same as those for the 19 countries in the "European Economic Zone" (380 million population and \$7 trillion GDP). Except for ASEAN, while the economic groupings of the Asian countries are not yet finalized, the trade regionalization trend is intensifying. As to Asian companies, other Asian countries are their most important export markets and import sources. Trade within Asia has reached \$280 billion, or 40 percent of Asia's trade, topping bilateral trade with North America by two-thirds and being double that with Western Europe.

Trade regionalization and grouping is aimed at excluding external competitors, so that economic structures can be adjusted and commodity competitive might can be increased within regions or groups. While it plays the role of promoting business and trade growth within regions and groups on one hand, it conflicts with global trade integration on the other, contradicting those who favor the multilateral free trade system of GATT.

The success of the Uruguay round of multilateral trade negotiations will be of key importance in preventing the hardening of trade groupings. These talks can be said to be long and drawn out ones, not having been concluded ever since their start in Punta de Este, Uruguay in September 1986 to the present. Their problem is blockages in the U.S.-European agricultural-product trade conflicts. While a compromise on this issue was reached between the U.S. and Europe in 1992, it was firmly rejected by France. Agricultural-product protectionism and subsidization are serious. While the member nations of the Economic Cooperation Organization rely on taxpayer and consumer transfer payments for more than \$300 billion a year, making trade liberalization very difficult, we still believe that a successful conclusion to the Uruguay round of negotiations is just a matter of time. Their failure would largely invalidate the multilateral free trade system, doing much harm to many countries. But their success will sharply promote world trade liberalization, being advantageous to many countries, particularly developing ones.

As to prospects, we hold that world trade will continue to be limited by the Western superpower economies, with a continued recovery of the world economy likely to spur somewhat higher world trade growth than in 1992. Trade turnover will grow roughly 6 percent, with an improvement in the U.S. economic situation being even more beneficial to the further growth of trade in today's world.

But the world trade trends of regionalization and grouping, and of sharpening trade friction and competition, will continue in 1993 and for some years to come, as these problems are not ones that can be solved in the short-run.

**Ni Weifen [0242 5633 5358] (Ministry of Foreign Trade and Economic Cooperation [MOFTEC, formerly MOFERT], International Trade Research Institute):**  
World trade growth features in 1992.

Global import and export volume in 1991 was \$3.66 trillion and \$3.53 trillion, respectively, up only 1.5 percent from 1990, for the lowest level since 1985. There was not much improvement in world trade in 1992, with estimated global trade growth of 4-4.5 percent. Due to the decline in the value of the dollar, world trade calculated in U.S. dollars was estimated to be higher in 1992 than in 1991. World trade growth in 1992 was characterized as follows:

### 1. World Trade Growth Remained Slow

UN statistics for the first half of 1992 show that world imports and exports grew 0.3 percent and 1.9 percent, respectively, over the same period in 1991, with these respective growth rates being 2.5 percent and 4.9 percent for developed countries that account for about 75 percent of world trade, 7.3 percent and 7.7 percent for developing countries, and as much as -60.7 percent and -61.3 percent for the former Soviet Union and Eastern European countries. GATT estimates for the first half of 1992 are that world trade volume was up 5 percent from the same period in 1991, with the drop in trade unit-price due to soft demand making trade value grow less than trade volume. In the last half of 1992, global trade volume grew more slowly, with the foreign trade growth momentum of major developed Western nations not being up to that of the first half, and even more deterioration in Western European and Japanese imports in particular. The sustained recession in the world economy was the major cause of the poor trade growth, with the lack of vitality in the economies of Western industrialized nations having a particularly sharp impact on world trade. The world's No 1 importing country—the U.S., was sharply afflicted with high debt, unemployment, and double deficits, with a slow and tortuous economic recovery, and import growth lower than in recovery periods after previous crises. Japan was suffering deeply from the collapse of its "bubble economy," with the stock market plunge and the decline in real estate prices impacting the Japanese economy. German reunification put an unbearable burden on West German revenues that had always been so strong, sharply increasing national debt, so that Germany adopted a high-interest-rate policy to combat inflation and attract capital. Western Europe's prevalent high interest rates and high unemployment severely hindered economic growth. The frequent crises in Europe's money markets since September showed the weakness of the Western European economy. The decline in Japanese and Western

European imports in 1992 showed an economic deterioration. The conversion difficulties of the former Soviet Union and Eastern European economies, with severe production slippage, internal market collapse, and sharp foreign trade decreases, having a severe impact on overall world trade growth.

### 2. The Trade Imbalance Among the Superpowers Worsened, and Trade Protectionism Intensified

While the trade imbalance among the Western superpowers had clearly improved since 1987, it took a turn for the worse in 1992. In the U.S., while imports had grown somewhat since 1992, export growth slowed due to the economic recession in Japan and Western Europe. U.S. exports suffered their biggest decline in five years in August 1992, with the U.S. trade deficit for the first 10 months reaching \$67.4 billion, up 22.4 percent from the same period in 1991, and already surpassing that for the whole year of 1991 of \$65.4 billion. Since 1991 in Japan, internal demand has slumped and imports have declined, while exports had been very strong and the trade surplus has increased sharply. Japan's trade surplus for the first 10 months of 1992 reached \$88.4 billion, up 44 percent from the same period in 1991, topping the historical record of \$82.7 billion that had been set for the whole of 1986.

### 3. The Trend of Regional Grouping Continued To Grow

Since the end of the Cold War, the bipolar system has collapsed and a multipolar one has developed, with the conflicts among the Western developed nations becoming more glaring and the pace of regional grouping speeding up. While the EC's plans to establish a European Alliance by the end of the century suffered certain setbacks, the building of a large uniform market is still proceeding on schedule. Agreements were reached in 1992 on establishing a "European Economic Zone," as well as an aligned-nation "European Accord" with three Eastern European countries. The reaching of agreement on NAFTA, headed by the U.S. and containing a population of 360 million, shows that the world economy has entered an age of regional grouping. All European and American countries are increasingly adopting a trade policy of coexisting intraregional trade liberalization and interregional trade protectionism. The Western superpowers are losing their sense of responsibility to their promised commitment to GATT free trade, with the basic principle of multilateral trade eroding. Out of consideration for respective economic interests, the new Uruguay round of trade negotiations seems unending. While the recent agreement reached by Europe and the U.S. on agricultural-product subsidies looked like it would clear the way for a successful conclusion to the Uruguay round, the French government refused to accept it. As differences still exist in various other fields, such as service trade, it is going to be very hard for the new round of trade talks to ultimately succeed.



#### 4. Trade Growth in Developing Countries Was Uneven, and the North-South Gap Continued To Grow

Developing countries (regions) in the Asian-Pacific region remained the most vigorous in world trade. While foreign trade growth in this region slowed somewhat in 1992, it was still the fastest in the world. Mainland China's rapid economic growth injected vigor into this region's economic and trade growth. It deserves notice that this region's intraregional trade has grown very quickly, with the ratio of internal trade turnover (not including the Middle East) to export volume for Asian-Pacific developing countries (regions) up from 23.5 percent in 1988 to 35.7 percent by 1991. The Latin American countries are adhering to a policy of reform and opening, with very rapid export growth. But most developing countries are still beset with many difficulties, with the slump in oil and primary product prices further lowering the export income of certain countries that depend on these product exports. While many developing countries have taken unilateral liberalization steps since 1986, they are still subject to many obstructions in gaining access to developed countries' markets. In particular, as the trade shift due to the current global fund shortage and the economic conversion in the former Soviet Union and Eastern European countries put developing countries in a very disadvantageous position in the struggle for funds, technology, and markets, the North-South gap continued to grow.

#### 5. The World Trade and Economic Growth Elasticity Coefficient Further Increased

In the 1990s, world trade has grown far faster than the world economy, which involves many factors. The rapid trade growth by developing countries (regions) in the Asian-Pacific region and some Latin American countries has contributed more to world trade growth, and the rapid growth in direct overseas investment (concentrated mostly in developed countries) has internationalized economic activity and promoted world trade growth. In the countries belonging to the Economic Cooperation Organization, foreign-funded enterprises are playing an increasingly greater role in their economies. International cooperation among enterprises is intensifying, with cooperation becoming increasingly conspicuous in high-tech industrial sectors, such as electronics, spaceflight, and communications. A very large (and still growing) percentage of world trade is being conducted between product suppliers and final producers within or among related enterprises. Trade within transnational corporations is growing very quickly. For instance, three-quarters of the goods of U.S. foreign-invested companies are imported from parent company groups, with such imports making up about 40 percent of U.S. imports, while one-third of U.S. exports are exported to overseas subsidiaries, and one-third are exported by foreign companies on U.S. territory to their parent company groups.

As various factors limiting world trade growth continue to exist in 1993, such as the U.S. economy's weak

recovery, time still being required for Japan's economic adjustment, not good prospects for Western Europe's economy, the economic growth of Western industrialized nations being lower than originally projected, and the economies of the former Soviet Union and Eastern European countries not likely to see much improvement, it looks like it is going to be hard for the world economy to overcome its low growth during the first half of the 1990s. But as the Western industrialized nations' economies generally grew slightly faster in 1992, having a certain promotional impact on world trade, and the economic shrinking in the CIS and Eastern European countries slowed, with trade among the former Comecon countries experiencing somewhat of a recovery in 1993 after some years of sharp decline, and continuing to expand with Western countries, it is projected that world trade volume will grow 5-6 percent in 1993. But world trade growth will depend on the prospects of the Uruguay round of negotiations. If agreement is reached, this will increase global investment and business confidence to promote trade growth. But if the talks fail, the consequences will be inconceivable, with trade within all regional groupings becoming more internally-oriented, trade among groups being obstructed, and trade protectionism intensifying, which will be adverse to world trade growth.

#### Implications, Status of GATT Admission

93CM0346A Beijing XIANDAI GUOJI GUANXI  
[CONTEMPORARY INTERNATIONAL RELATIONS]  
in Chinese No 32, 20 May 93 pp 6-9, 5

[Article by Su Jingxiang (1372 2529 4382): "Background of and Prospects for China's Application To Resume Its Status as a GATT Signatory"]

[Excerpt] [passage omitted] China's decision to apply for "readmission to the GATT" involves factors, such as the significant transformation that has occurred in our foreign trade target countries and strategy since reform and opening.

1. China's rapid foreign trade growth requires us to establish stable trade relations with GATT signatories. First, trade targets. In the 1950s, China's trade with the Soviet Union and Eastern European countries was dominant (accounting for 70 percent in 1953). But once China paid off all of its debts to the Soviet Union in 1966, Sino-Soviet trade basically stopped completely, with China's ratio of trade with socialist countries down to 22 percent, dropping further to 12 percent by 1979. Meanwhile, China's trade with capitalist countries grew rapidly, with nearly 90 percent of China's foreign trade targets by the 1980s being GATT signatories (accounting for 85 percent of exports and 90 percent of imports). Second, trade strategy. Prior to the 1970s, China did not accept the trade theories of "comparative advantage" and "global dependency," it tried to build a national economy that was complete in itself, by adopting an "import-driven" foreign trade strategy, i.e., first determining essential material and commodity imports, and

then earning the foreign exchange needed for these imports through exporting. In its conduct of trade, it emphasized a trade balance with each trade target to avoid borrowing. But since 1979, China has pursued an "export-driven" trade strategy, in which the first step is setting export targets, after which import levels are determined, which has transformed its foreign trade focus to more emphasis on exports. From 1979 to 1986, China's exports doubled, raising its ranking among developing countries from eighth to fourth. By 1986, China had become the largest importing nation of developing countries.

**2. Full GATT membership will enhance China's ability to resist the rising protectionist trend of developed nations.** Beginning in 1983, the severe worsening of U.S. fiscal and trade deficits brought out a protectionist tendency there. In 1984, President Reagan approved a new trade bill. In 1985, the U.S. Congress proposed the "Jenkins motion" to restrict textile exports to the United States. Although President Reagan vetoed this proposal in 1986, these trends naturally aroused the attention of China as a key textile-exporting country. China's experience in the "Diversified Fiber Agreement" raised its awareness about using the international forum, bringing it to realize the much greater profit in the GATT multilateral trade accord than in relying simply on bilateral trade negotiations. By 1980, while China had reached agreement with all of its key trading partners on granting mutual "most-favored nation [MFN] treatment," the U.S. Congress passed the "Jackson-Vanik Amendment to the 1974 trade bill," requiring the president to make an annual examination of the emigration restrictions of socialist countries, which turned the U.S. "MFN treatment" for China into a matter for consideration every year. In addition, the United States has never granted China "General Special" (GSP) treatment. But GATT terms provide that signatories should unconditionally accord each other "MFN treatment," and that developed signatories should grant developing countries the same GSP treatment as signatories.

**3. The legal framework drawn up by the new "Uruguay round" of GATT negotiations will affect international trade in the 21st century.** The Chinese government is aware that continued exclusion from the GATT will be adverse to China's future business and trade development. In the 1980s, China's trade disputes with various key trading partners sharpened, and we were often subject to discriminatory treatment. So once China "recovers its GATT membership," we can use the GATT dispute-arbitration and -mediation mechanism to avoid continued unfair treatment.

China's application for "GATT reentry" is based on three principles: First, we should resume our GATT signatory status, not join as a new member. Second, the negotiations should be based on lowering tariffs, not on undertaking specific import commitments. Third, China should be recognized as a developing country, enjoying the corresponding treatment and undertaking

the corresponding commitments. China's "GATT reentry" application has been in the works for over six years, with many factors being involved in why we are still excluded from the GATT.

**1. GATT membership formalities are exceptionally complicated.** Application for membership in the IMF or World Bank requires simply the endorsement of their boards of directors for admission, with commitments being simply paying membership dues on time and reporting key economic statistics. But application for GATT membership requires not only examination and approval by the board of directors, but also individual consultation with two-thirds of its signatories, which involves the real interests of all countries, so makes the negotiations more complex and difficult.

**2. Certain Western countries are presenting a number of terms.** First, China is required to draw up a uniform trade policy. Second, China is required to make its trade policy more transparent. Third, China is required to eliminate nontariff barriers. Fourth, China is required to promise to practice a market economy. Fifth, China is required to re-sign other agreements to ensure increased imports. In addition, China is required to agree to their respective selected protection of domestic markets to prevent possible large Chinese exports to them.

**3. The impact of deteriorating U.S.-China relations.** When China applied for "GATT reentry" in 1986, the United States took a relatively positive approach. But while U.S.-China bilateral negotiations had been proceeding very smoothly prior to 1989, the turnaround in U.S.-China relations in 1989 has severely impacted China's GATT-reentry progress. It was not until early March 1993 that the U.S. deputy trade representative in charge of GATT matters, Douglas Newkirk, finally brought a delegation back to China for continued negotiations. U.S. domestic trade protectionist sentiment has been running high in recent years, with assertions that China has built up a large trade surplus with the United States (according to U.S. statistics, being \$12.7 billion for 1991 and \$18.2 billion for 1992). So the United States is trying to exploit China's quest for "GATT reentry" to force China into making greater concessions to reduce its trade deficit with China.

**4. The impact of the delay in the "Uruguay Round" of negotiations.** When China first applied, it wanted to take part in the "Uruguay Round" of GATT negotiations, expressing a willingness to sign all agreements reached in that round of talks as a basic worked-out membership protocol for a "wholesale" solution to its "GATT reentry" problems. But U.S.-European differences over issues, such as farm-product subsidies, have long kept this round of negotiations from final agreement, thus indirectly affecting China's "GATT reentry" progress.

By mid-March 1993, the GATT-China Working Group had held 14 meetings. While there are still many obstacles in our "GATT reentry" problem, the Chinese government's unrelenting efforts, the vigorous support of

the large numbers of developing countries, and the basic agreement of the Western countries, all make our "GATT reentry" inevitable.

**China's perspective.** First, 14 years of reform and opening have injected unprecedented vitality into China's foreign trade development, with our ratio of foreign trade to GNP up from 9.9 percent in 1978 to 37 percent by 1991, and up again to 38.1 percent for 1992 (19.5 percent for exports and 18.6 percent for imports). So as foreign trade has become a key source of our economic growth, our "GATT reentry" is clearly more significant now than it was in 1986. In light of this, the Government Work Report of our NPC held in March 1993 put the "GATT reentry" matter on its key work agenda. Second, China has written into our constitution the goal established by the "14th CPC Congress" in October 1992 of building a socialist market economy. The ratio of directive plans in our GVIO is now down to less than 17 percent. In our price structure, guided and market prices now account for over 70 percent. GATT reentry will help to speed up our economic reforms and formation of a uniform domestic market. Third, China is working hard to reform its foreign trade system to resolve disputes with its trading partners, and has decided to act according to international regulations. In export policy, China announced on 1 January 1991 that it was stopping direct export subsidies. As to import policy, in the open-markets memorandum of understanding signed with the United States on 10 October 1992, China promised to sharply reform our import policy, including that on nontariff barriers, promising to eliminate 75 percent of import licensing requirements within two years, and 90 percent within five years. As to the intellectual property rights matter, China amended its patent law in 1992. In October, China joined the Bern Accord and the World Copyright Pact, signing with the United States on 17 October a memorandum of understanding on intellectual property rights, in which it promised to improve its protection of U.S. inventions and copyrights. In addition, the Chinese government has eased its restrictions on service industries and direct investment fields, allowing certain foreign companies to operate department stores and commercial retail sales and services in China. As to making our trade system more transparent, China has begun to publicize trade regulations previously unknown to outsiders, having publicized 47 foreign trade documents by the end of 1992. Fourth, China resolved in 1992 its longstanding diplomatic or commercial relations issues with South Korea, Israel, and South Africa. All of these efforts have created the necessary conditions for China's readmission to the GATT.

**The view of Western nations.** While the United States has differences with China on many issues, the U.S. government has always expressed support for China's full GATT membership. As the Clinton Administration has raised trade issues to a national security plane, China's obviously huge market potential is something that the United States cannot afford to ignore. World

economic regionalization and grouping has grown rapidly in recent years, tending to break up the old international trade order. So the Western nations need China to play a role in the GATT to create a new international trading system.

China's readmission to the GATT not only will be of importance to China's economic development and reform and opening, but also will be bound to have a significant impact on the international economy.

1. In the late 1960s and early 1970s, opposition to the GATT admission of several Eastern European countries was out of political considerations, China's readmission to the GATT will be due essentially to China's socialist market economy getting onto the same track as traditional international markets. Considering the Cold War is over, China's "readmission to the GATT" will show that an age of integration of the Eastern and Western economies has truly begun. China and Russia are currently the world's two largest economic entities outside of the GATT, as well as being the most important uncertain factors determining the trans-21st-century international trade structure and order. As Russia has expressed a wish to join the GATT and China is going to "recover its GATT seat" soon, the GATT will become an international trade organization including all of the world's key economic entities. This will undoubtedly be beneficial to the GATT mechanism-reform and the establishment of a new trans-21st-century world trade order.

2. China is a rising trade nation, with a 1992 foreign trade volume topping \$166 billion, jumping to 11th place in the world. China's readmission to the GATT not only will be of importance to business and trade development in the Asian-Pacific region, but also will sharply increase the "neofree-trade" forces within the GATT, to enable a common resistance against all sorts of trade protectionist tendencies.

3. China's "GATT reentry" will be beneficial to the economic development of mainland China, Hong Kong, and Taiwan. In 1992, China, Hong Kong, and Taiwan had a foreign trade turnover of more than \$560 billion, up 18 percent from 1991, making this region the one with the fastest growing foreign trade of the world's key trade blocs. Hong Kong is already a GATT member, and China has agreed to allow it to remain in the GATT after 1997 under the name of "China, Hong Kong." As Taiwan is now applying for GATT membership, China does not oppose its GATT membership under the name of "China, Taipei" once we "reacquire our GATT seat." China, Taiwan, and Hong Kong all acting according to GATT rules will not only contribute to the organization of the business and trade relations of these three places across the Taiwan Strait, but will also be bound to be beneficial to the development of business and trade relations in the Asian-Pacific region and throughout the world.



**Western Countries Adjusting to Post-Cold War Order**

93P30067A

[Editorial Report] An article serialized in the February and March 1993 issues of Shanghai GUOJI ZHAN-WANG [WORLD OUTLOOK] in Chinese suggests that economic security, whether national or global, is increasingly becoming the "most important" security. Thus, in the future, world security and national security will no longer be "just a military or arms issue" but will "more importantly" be influenced by economic and S&T development. Author Wang Shu also analyzes the relative strengths of the developed countries in light of economic factors. He acknowledges that the United States is the "winner" of the Cold War but has also been economically weakened by it and that its ability to maintain superpower status will depend on whether it can revitalize its economy. On this issue, Wang states that "the

U.S. economic and S&T basis and potential should not be underestimated." In the international political arena, the United States will try to work through the UN Security Council, but when that does not work to its advantage, it will "bypass the UN" and take unilateral action. Wang predicts that this situation will continue for a long time.

Wang also discusses the place of Japan, Germany, and Russia in the world order. He states that Japan and Germany must keep their economic development on track. On the question of their becoming political or military powers, he says that "we will have to see if they can achieve that aim without running into resistance and confrontation." Wang states that "Japan and Germany will have difficulty competing with the United States." As for Russia, although the country still possesses a large number of nuclear and other advanced weapons, "it will be busy with internal affairs for a long time."

## NATIONAL AFFAIRS, POLICY

**Experts Urge Improved Macroeconomic Control Measures***93CE0666A Beijing JINRONG SHIBAO in Chinese  
15 Jun 93 p 1*

[Article by Tong Guoping (4547 0948 1627): "Experts Stress Strengthening Macroeconomic Control To Surmount Disadvantageous Elements"]

[Text] This year the national economy has maintained a strong trend of growth. The general economic situation is good. The high-speed economic operation, however, makes some contradictions further stand out. The economic environment is tightening; the overall balancing of material supplies, finance, credits and loans, and foreign currency reservation is becoming difficult; and inflation pressure is increasing. Agencies concerned, therefore, summarize the current economic characteristics as "five-highs and five-deficiencies; and three-heat waves and three slow-movements," that is, industrial production, investment of fixed assets, currency supply, imports and foreign investment, and prices have high growth; transportation is in an overall crisis, energy and raw material supplies are increasingly deficient, the financial situation is tight, capital and supplies of foreign currency are in short supply; financial exchange, real estate, and establishment of development zones is hot; development of central and west regions, state-owned industries, and agriculture are slow.

Industrial production continues to grow. From January to April, industrial gross output value at and above the township level increased by 23 percent on the basis of 18.3 percent growth rate for the same period last year. April itself saw an increase of 25.2 percent over the same month last year. Meanwhile, sale and production were well connected. Sales in April grew by 27.9 percent over the same period last year, 2.7 percent higher than the industrial growth rate. Products sale rate reached 95.6 percent. Because of simultaneous growth of production and sale, industrial efficiency was further improved. During the first season, independent accounting enterprises in the nation raised their efficiency by 15.8 percent, and collective enterprises by 9.1 percent. Profits and tax revenue for state industrial enterprises grew by 41.38 percent between January and April over the same period last year.

Investment in fixed assets has grown substantially. State-owned units showed an increase of 38.6 percent in investment in fixed assets during the period from January to April last year over the same period the previous year, and the same period of this year saw an increase of 68.9 percent over the same period last year. In regard to the source of investment, regional funds contributed most to investment growth.

Imports and foreign investment have grown fast. According to customs statistics, the total volume of imports during January and April was worth \$24.76

billion, increasing 24.7 percent over the same period last year, 17 percent higher than the export growth rate. Canceling out each other and excluding the portion involving foreign currency transactions, there was a trade surplus of \$1.64 billion. The use of foreign funds improved substantially. Between January and April, the rate increased by 99.3 percent over the same period last year. The proportion of foreign investment grew from 9.4 percent of total investment last year to 11.1 percent this year.

Currency issuance has increased to a large extent. Large issuance of currency not only increases pressure for the annual issuance plan, but has a negative effect on efforts to stabilize prices.

Prices have soared. In April, normally the off season for sales, sales grew vigorously. During the month, social commodities retail sales reached 10.7 yuan, increasing 25.4 percent over the same month last year. Prices clearly went up. Since the end of the third season of last year when retail sale price index rose by 5 percent, the market has experienced a consecutive five-month price hike. During the first three months this year, the retail price index went up 8.4 percent, 8.5 percent, and 9.1 percent, respectively. At the same time, because of the continuous growth of production and investment, prices of production materials sky-rocketed. Between January and April, the price level for materials rose by 40.8 percent over the same period last year.

Transportation is undergoing an overall crisis. From January to April, industry grew by 23 percent, yet, railroad carried a total cargo of only 499 million tons, an decrease of 0.3 percent. The concentration of cargo flow in eastern and southern coastal areas especially intensified the imbalance of cargo flow directions. This problem has become a significant checking element to the development of national economy, and must be resolved with effective measures in a timely fashion.

Energy, raw materials and liquid funds are in short supply. During the first season this year, GDP grew by 14.1 percent over the same period last year. The production of energy, however, only increased by 4 percent. From January to April, loans made by banks increased by 93.9 billion yuan over the end of last year, a decrease of 5.4 billion yuan from the same period last year. Obviously, the magnitude and scale of increase in loans for enterprise liquid funds can hardly keep up with the growth rate of industries. The gap will intensify shortages in industrial funds.

The heat in financial exchange, real estate industry, the opening of development zones has developed since last year in the country, especially in coastal regions, intervenes with the normal operation of the national economy. Within the general framework of speeding national economy, central and western regions, state-owned enterprises, and agriculture are still in a state of slow operation.

Based on the analysis of concerned agencies of the National Economic and Trade Commissions, the characteristics of "five-highs and five-deficiencies, three-heat waves and three-slow movements" have their inner relationships. Constant "five-highs" will definitely lead to "five-deficiencies"; excessive "three-heat waves" will naturally result in "three-slow movements." Taking opportunities for fast development should be recognized as achievements. At present, however, the key problem is how to adjust the magnitude of development. What development speed and magnitude is appropriate? Both have to be intentionally controlled. Blind pursuit of high speed to lose control of development may lead to the opposite outcome. Concerned experts point out that macroeconomic control must be strengthened to bring about active elements and overcome unfavorable elements and have the national economy develop continuously and steadily along the route of high speed and great efficiency.

## FINANCE, BANKING

### Banking System Undergoes Restructuring

93CE0698A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 10, 4 Jun 93 p 57

[Article by Ho Kang-hua (0149 1660 5478): "Overhaul of Chinese Banking Industry: The Opening of 'Government Development Bank'"]

[Text] In the wake of reform and opening up, China's existing banking system has gradually fallen behind the times; it is no longer able to meet today's needs. Moreover, now that the direction of Deng Xiaoping's market economy is set, competition among banks is heating up. To avoid more chaos in the banking industry in the future, the central authorities have issued orders to further straighten out the existing banking system and clarify the division of labor among existing banks (in fact they are all state-owned banks) and to let banks compete under the rules of a market economy.

Foreign investors should be interested in this move, because it will change the traditional scope of banking business and give them increased opportunities to invest in China and to cooperate with Chinese banks either directly or indirectly.

In April of this year, members of the Chinese banking network held a nationwide conference. It was presided over by People's Bank's chairman, Li Guixian [2621 6311 7639]. After the meeting, the central authorities compiled the relevant documents and recently handed them down to the various provincial and municipal governments.

The gist of the instruction is to set up a financial system headed by the central bank; the state commercial banks will play a major role, and the other financial institutions will share in the division of labor.

Specifically:

(1) Set up a state policy-oriented investment bank that will be primarily responsible for investments and loans in the state's key construction projects. Upon its establishment, People's Construction Bank will become a commercial bank handling intermediate- to long-term credit loans.

(2) Set up China's Import-Export Bank which will be a state-run, policy-oriented bank handling the state's indirect export subsidies and other policy-oriented businesses as well as import-export credit loans that commercial banks are not equipped to handle. Thereafter, Bank of China will handle import-export credits according to business and market principles and will be turned into a bona fide bank.

(3) Bank of Industry and Commerce and Agricultural Bank will make a transition toward becoming commercial banks. First, they will practise "one bank, two systems," that is, keep separate books and separately account for their policy-oriented operations and business-oriented operations. Bonuses and interest subsidies for policy-oriented credit loans will be remedied by means of special appropriation by the Ministry of Finance, profit retention, and issuance of policy-oriented bonds.

(4) Urban credit cooperatives will be turned into local shareholding, cooperative-type commercial banks, creating a third-level cooperative commercial bank system run by independent legal persons.

(5) Rural credit cooperatives' status as Agricultural Bank's administrative subordinates will be changed to improve the rural financial system where the Agricultural Bank and the rural credit cooperatives will play the major role, and the rural cooperative foundations will play a supplementary role.

A pertinent department has disclosed that, following the above steps, the state has recently decided to use the State Planning Commission's six major investment companies as a basis to set up a Government Development Bank. It will be responsible for investments and loans in the state's key construction projects and infrastructure. Its funds will come mainly from allocations from the Ministry of Finance's basic construction fund, postal savings deposits, social security fund balances, and state-guaranteed bonds.

Upon the creation of Government Development Bank, People's Construction Bank will become a commercial bank handling intermediate- and long-term credit loans and will no longer be responsible for loans that replace government allocations or other policy-oriented loans, but it will continue to allocate funds for government basic construction projects and can handle business on behalf of the Development Bank. Under the guidance of the state's investment and industrial policies, the Construction Bank which handles intermediate- and long-term credit loans will be free to make loans on its own.



**Scholar Discusses Speeding Up Tax Reform**

93CE0698B Taiyuan JINGJI WENTI [ECONOMIC ISSUES] in Chinese No 5, 25 May 93 pp 4-6

[Article by Wang Qingyun (3769 7230 0061), China People's University Doctoral Candidate: "Thoughts on Accelerating the Restructuring of the Tax System"]

**[Text] I. The Necessity of Tax Reform**

Since 1979, a series of major reforms have been implemented to change the overly simple and monotonous tax system installed under the planned economic system. These changes have vigorously propelled China's economy toward commercialization and the market economy. But the existing tax system is far from meeting the needs of the socialist market economy. This is seen especially in the following areas:

*1. The tax collection and management system is ossified; some essential taxes have not been introduced, which undermines the development of the socialist market system.*

The financial system is "eating in separate kitchens," but the corresponding tax system is still based on enterprises' administrative subordination relationships. In an effort to protect their own interests and make sure that they are not benefiting somebody else, the localities impose regional blockades, resulting in market separatism. This is contrary to the principles of the market economy. The market economy needs a good market system, but we have not begun to collect social security tax, which hinders the development of the labor market.

*2. The nonstandardized and imperfect tax system seriously hampers fair competition among enterprises.*

Currently, domestic and foreign-owned enterprises do not pay the same income taxes. Different localities have different tax reduction and exemption standards. The determination of tax categories and tax rates and the method of calculating taxes due are haphazard and discretionary. These factors undermine fair enterprise competition.

*3. Circulation tax is redundant; there are too many marginal tax brackets, making it an ineffective tool for regulating the economy.*

Currently, the circulation tax is made up of product tax, business tax, and value-added tax. The scope of value-added tax is narrow while product tax and business tax are levied based on the circulation volume. The more times a product circulates, the more tax it pays. This not only undermines the division of labor and cooperation among enterprises but also affects normal product circulation. The price system has always been chaotic and the industrial structure maladjusted, and we have tried to use the circulation tax to modify the improper price system and readjust the industrial structure. That is why product tax has many marginal tax brackets: Low-priced,

basic industrial goods pay low taxes; high-priced, processed industrial goods pay high taxes; industries and products which the state encourages pay low taxes, and industries and products restricted by the state pay high taxes. Facts prove that the result is less than ideal.

*4. Effort to narrow the wide gap in personal income has been inadequate. The well-developed regions give tax breaks while the poor regions impose relatively high tax, thus exacerbating the regional income disparity. This is contrary to the socialist wealth-sharing goal.*

Since reform and opening up, several different forms of distribution have emerged, and the income gap between individuals has begun to widen. To regulate the personal income disparity, a personal income regulation tax is imposed on the nation's citizens. However, tax collection and management have not kept up with the times. On the one hand, citizens understand little about paying taxes, and on the other hand, tax departments basically do not know who makes how much each month, and so personal income regulation tax's regulatory role is very limited. The opening up of China to the outside world began in the eastern coastal regions. To attract foreign capital, many preferential tax policies have been promulgated in the open regions, and they have attracted large amounts of foreign capital which in turn has brought economic prosperity. In contrast, the western backward regions are in a less advantageous position, and this has not been compensated by the absence of preferential tax policies. This is not fair. Currently, the income gap between individuals and the difference in living standards between regions have caused some social problems, and these differences are also contrary to the socialist wealth-sharing principle.

**II. Tax Reform Ideas**

*1. Restructure the existing tax collection and management system; implement a classified tax system; smash regional blockades, and promote the formation of a socialist unified market.*

We must abandon the traditional way of delineating central and local financial revenue and expenditure relationships based on enterprises' and institutions' administrative subordination relationships. While insisting on uniting jurisdictional rights and financial power, we should install a classified tax system to meet the needs of the market economy and use that as basis for delineating central and local authorities' power of taxation. The central authorities should have the right to legislate central taxes and taxes shared by central and local governments; local authorities should legislate local taxes. Only in this way can we promote the formation of a unified market.

**2. Restructure the circulation tax system**

We should set up a new circulation tax system which is comprised of the value-added tax, consumption tax, and business tax and which regulates the economy at two levels. Value-added tax is better than the existing

product tax and business tax in many ways and is also an increasingly popular type of taxation worldwide. Its scope should be expanded gradually, first to cover the industrial production links and then extended to the entire commercial wholesale and retail links. At the same time, its tax brackets should be reduced and the method of collecting value-added tax should also be changed to make it more uniform. The product tax should be replaced by a consumption tax, and the special consumption tax should be combined with the consumption tax. The collection of this and value-added tax should be coordinated to adjust the economic structure at two separate levels. Products which need special regulation under state policies should be levied a consumption tax on top of the value-added tax, so as to effectively adjust the industrial structure and the consumption mix. A business tax should be installed in the tertiary industry (excluding commerce.) To facilitate the development of the tertiary industry, we should properly adjust the tax rates of various business tax categories and reduce the difference between various circulation tax burdens and the actual tax burdens. To facilitate opening up, the gap between the unified industrial and commercial tax and domestic enterprises' value-added tax, consumption tax, and business tax should be narrowed gradually to make the circulation tax systems applicable to Chinese and foreign-owned enterprises uniform.

### 3. Restructure the income tax system.

The Ministry of Finance recently announced the installation of a uniform income tax system in all Chinese-owned enterprises under different systems. The next step should be to actively create the conditions to make the tax systems for domestic and foreign-owned enterprises uniform. This will promote fair competition between domestic and foreign-owned enterprises. For the reform of personal income tax, the guiding ideology is to create a system compatible with the income allocation system that emphasizes distribution according to work but which is supplemented by other forms of distribution. The new system should accept reasonable income disparity but also prevent extreme differences. One idea is to merge the existing personal income tax, personal income regulation tax, and individual industrial and commercial household income tax in cities and towns and impose a uniform personal income tax applicable to Chinese and foreigners alike. At the same time, we should strengthen the collection and management of personal income tax, so that it can truly function to regulate individual income allocation.

### 4. Other tax reforms.

We should expand the scope and categories of taxes on natural resources. First we can consider a general natural resource tax on petroleum. Then we can consider including all metallic and nonmetallic mineral products, and later explore the feasibility of imposing a natural resource tax on river, lake, and forest resources. We can implement a uniform real estate tax and an excise tax on cars and boats. We can combine the existing three types

of bonus taxes and the state-run enterprise wage regulation tax into a wage regulation tax for enterprises and institutions. We should restructure the city construction tax and turn it into a bona fide local tax. We can study the possibility of a land value appreciation tax and a securities exchange tax, and when the time comes, we should also impose an estate tax and gift tax.

### Analysis of Impact of Interest Rate Increases

93CE0677A Beijing JINRONG SHIBAO in Chinese  
9, 10 Jun 93

[Article by Wang Tong (3769 3392): "Grasping the Motive Forces of the Economy: Analysis of the Effects of 15 May Interest Rate Increase"]

[9 Jun 93 p 1]

[Text] Interest rates are the price of the special commodity currency, and the basic factor determining whether interest rates are high or low is the supply situation of a society's funds at any given moment. At present, China's high rate of investment is increasing, and the macroeconomic dynamic environment is day by day tightening. This year from January to April there was a marked increase of 68.9 percent in the state owned units fully fixed capital investment rate compared to the same period last year, a 14.1 percent increase in the first quarter GDP, and a 9.1 percent rise in the retail prices of social commodities. To counter the current growth in the funds supply contradictions, the interest rate for household savings deposits in reality is already a negative interest rate, and subject to State Council approval, the Central Bank of China starting from 15 May, raised its deposit rate and loan interest rate, to get a handle on macroeconomic motive forces.

Banking system deposits, and loan interest rates are on the low side, and this is not beneficial to alleviating contradictions in the supply of funds, while high interest rate direct investment already constitutes an assault against banks' household savings deposits.

The interest rate for savings deposits is on the low side, and the emergence of what in reality is a negative interest rate is not beneficial to stabilizing household savings. Since reform and opening up, in the wake of the continuous increase in household income and the gradual increase in the interest rate on savings deposits, China's household savings deposits have grown sharply from a level of 21 billion yuan in 1978, to 1.1544 trillion yuan in 1992, an average annual increase of 33 percent. Household savings deposits have become a primary source of China's credit funds, and household savings deposits have had a major impact on the stability of the financial environment and even the macroeconomic environment. Since the fourth quarter of last year, China has seen a gradual acceleration in the rising of prices, and in March there was an 10.2 percent rise in the overall level of retail prices (close to the levels in early 1988), while the gap between the savings rate of interest and the rise

in prices has grown wider month by month. Taking the interest rate (7.56 percent) for a certain period of last year as an example, the real interest rate relative to a retail price index calculation for the first three months of this year was -0.8, -1.0, and -2.64 percent, respectively. In the wake of accelerated price rises, the extent of the negative interest rate has also worsened, and the increased momentum of China's urban and rural household savings deposits has clearly weakened. In the first quarter, the total increase in urban and rural household savings deposits was 69.4 billion yuan, a slight increase of 15.5 billion yuan over a similar period last year, but included a drop in March of 4.5 billion yuan. This situation historically has only emerged once before in the high inflation period of August 1988. In April it only increased 977 million yuan, a per capita rise of less than 1 yuan.

Loan interest rates are on the low side, which is not beneficial to enterprises trying to increase economic efficiency by ferreting out hidden reserves internally. At present China's enterprises are generally in a situation of high debt management, and in the current asset structure of state-owned enterprises, bank credit totals 73.2 percent. If other forms of debt are added in, the total debt proportion exceeds 80 percent. The high debt of enterprises is directly related with the low interest rates of banks. Taking the fixed capital investment (technological transformation and capital construction) loan interest rate for one year as an example, its interest rate is 9.36 percent, and this year in the first quarter capital goods price rise reached 38 percent, which included an even larger increase in the prices of investment goods (for example, the "three major materials"), and enterprise profit gap was close to 30 percent. The high total profit gap has aggravated contradictions in the supply of bank credit funds, and enterprises, as long as they are able to get loans, can obtain comparatively high profits. This, however, is not beneficial for enterprises trying to discover hidden reserves internally, reform management, and increase economic efficiency.

The raising of funds through high interest rates has already had an impact on the banking savings deposit structure, and could gradually worsen the financial environment, while being detrimental to restructuring of the industrial structure and implementing macroeconomic regulation. At present a whole series of fund raising methods have emerged, and because high interest rates act as bait, they have attracted a large portion of the society's idle capital, including a huge portion that is household held ready cash or savings deposits obtained from banks. Interest rates for raising funds for enterprises in the coastal area provinces and cities such as Zhejiang, Guangdong, Hainan, Shanghai, and Jiangsu are normally in the 20 percent range, with the high end being around 30 percent. In March, there was a drop in bank savings deposits, and with the exception of the factor of a mentality of anticipating household inflation, a very large portion was due, to put it in a nutshell, to the fund raising prevailing practices of localities and enterprises. If each locality is competing to raise interest rates,

this will result in an interest rate war, and peoples' idle capital will inevitably flow towards regions with high interest rates. This can result in the formation of a vicious circle, gradually worsening the financial environment. At the same time, when money is obtained through enterprise fund raising, normally it is invested in areas where the construction cycle is short, the desired results are produced quickly, and earnings are high, such as processing industry departments, and dummy economic departments with a comparatively large risk (such as enterprise units that buy shares low and sell high, speculate in futures and in housing). This will lead to bottlenecked departments and even more shortages, and will not be beneficial to readjustment of the production structure.

[10 Jun 93 p 1]

[Text] Since 15 May, the People's Bank of China has raised its fixed deposit annual interest rate to 2.18 percent, while demand deposits, small deposits for lump withdrawals, lump savings lump withdrawal, interest bearing capital reserve, fixed demand two convenience, and overseas Chinese savings deposit type bank saving interest rates were also adjusted upwards, and at the same time, interest rates for fixed asset investment, and operating fund loans were also increased. As for the impact of this adjustment on interest rates, it is possible to do an analytical forecast comparing the two aspects of savings deposit trends and demand deposits.

Household savings have tended to increase at a rate of 3.5 percent. In the wake of continuing the construction of a socialist market economy, people's investment consciousness has clearly increased, and household savings have become a major source of investment funds for the whole society, while interest rates on savings deposits have increasingly become one opportunity cost as households choose between consuming and investing. We conducted a survey analysis of changes in household savings deposit interest rate adjustment and the changing situation of trends in household savings deposits between 1978 and 1992. From this it is possible to make the following conclusions: for each increase in interest rates, the tendency is for household savings deposits to increase by one level. Another factor leading to the tendency for increases in household savings deposits has been the rapid rate of increase in household monetary income during the years in question. When doing an interrelated analysis of the data since 1978, it is apparent that the tendency for household savings to increase, was 70 percent the result of the rises in interest rates on household savings, and 30 percent the result of the growth in household monetary income. At the same time as this, it is also possible to conclude that when the increase in the interest rate on household savings deposits increased by an average of 1 percent, household savings tended to increase by 1.6 percent, and China's household consumption scale was reduced by 1.8 percent, nearly 20 billion yuan.



Demand deposits in comparison dropped by 8.7 percent. Looking at the situation from the point of view of the influence of the household held financial asset structure, an increase in the interest rate on household savings is beneficial to increasing debt recovery, and reducing the volume of cash circulation. Through the conduction of an analysis comparing changes in household savings deposit interest rates and demand deposit rates from 1978 to 1992, it is possible to make the conclusion that each increase in the interest rate on savings, resulted in a corresponding reduction in demand deposits by one level. Another factor affecting reductions in savings deposits is the large increase in savings mesh (network) points, improvements in methods of service, such as the increased and developed banking business. A relevant analysis reveals that for an average annual 1 percent rise in the interest rate on savings deposit, demand deposits were reduced by 4 percent, and the proportion of household cash held was reduced by 2 percent. This has led to a 9 billion yuan recovery of cash, alleviating the pressure on the currency requirements of commodity markets.

The above described analysis indicates that an increase in savings deposit interest rates has a beneficial effect on increasing household savings trends, and reducing the volume of cash in circulation. At a time when there is a current trend towards rapid increases in prices, and an increased mentality of anticipation of inflation, to stabilize savings deposits, from a high level consideration of macroeconomic regulation, increasing interest rates will make it possible to grasp the motive force of the economy.

## TRANSPORTATION

**Sichuan Governor on Improving Transportation**  
93CE0642A Beijing ZHONGGUO JIAOTONG BAO  
in Chinese 13 May 93 p 1

[Text] On 1 May, International Labor Day, the Chengdu-Chongqing highway construction concerning and supported by all Sichuan people had a new breakthrough. As required by the Sichuan government the highway connecting Chengdu and Jianyang was opened, ending the history of Sichuan without a highway. This "Great Golden Highway" honored as the "Southwest No 1 route," after fully opening in 1995, will greatly improve Sichuan's investment climate, promote the rural and urban economy and market prosperity. It will make production and living more convenient for everyone along this highway. It has strong social benefits, comprehensive economic benefits and profound political meaning, which contributes an important strategic factor to the economic prosperity of Sichuan Province, even the whole southwest.

With the continuation of reform and opening up, and rapid economic development, Sichuan's transportation problem became more and more critical. Railway transportation is experiencing greater and greater shortages, and roads are of poor quality, only 1 percent are highways. Most roads do not meet transportation demands, and aviation and waterways are not developed either. Speeding up the development of transportation is an urgent demand for developing Sichuan's economy. Provincial committees and government stated: There are two prominent points in developing Sichuan's economy: One is liberated thinking, one is to develop transportation.

The key to accelerating transportation is the problem of capital. The Sichuan government has gradually issued some policies for accruing capital, such as charging additional fees for transportation construction on non-rural land; charging additional transportation fees based on transferring tax; and raising basic fares. These measures are great policies by government in the spirit of the 14th congress, and completely fit the demand of enlarging reform and opening up, and economic development; also they are fit for "three benefits" as well as the demands of the socialist market economy. Meanwhile, we are urged to guarantee all capital for transportation at the place it should be and continue using measures of "living on industry" to accrue capital, using collective efforts of the state, unit and individuals; gradually increasing the proportion of construction capital in financial expenditures, calling for capitals from all of society, and using it in major constructions.

As for the investment system, besides the necessity of increasing investment and policy support from the government, we should continue reform and opening up to attract foreign investment, mainly by adopting preferential measures and new policies to encourage foreign or joint-venture to build highways, bridges and channels; properly develop joint-venture companies on road and waterway transportation; meanwhile, we should abide by certain regulations to accrue capital with loans, collective investment, bonds and stocks; and combined measures of operating an landscaping highway projects, waterway cleaning and port construction as well as contracted main road operations so that we establish a good circulation of self-accruing capital, user payment and on-going development. This will prepare a beneficial environment for our transportation development.

Transportation is a major limit to Sichuan's development. We have the confidence and ability to completely change the situation of "the hardway in Sichuan" which has troubled the Sichuan people for thousands of years. We will work hard to realize the great strategic goal of Sichuan's new economy and to build Sichuan into a true "heavenly land."

**Shanghai-Hohhot Air Route Opens***OW0408131093 Beijing XINHUA in English  
1248 GMT 4 Aug 93*

[Text] Shanghai, August 4 (XINHUA)—A direct air route from Shanghai, China's largest industrial city, to Hohhot, capital of northern China's Inner Mongolia Autonomous Region, opened today.

Scheduled flights for this Shanghai-Hohhot airline will be on every Wednesday and Sunday. The major airliner will be a Boeing 737-300, which can carry 145 passengers, and a flight will take two hours.

The airline will be managed by the Air China Inner Mongolia Branch, which was set up in July 1990, and now has three Boeing 737-300, four DAE-148 and eight Yun-7 passenger planes.

Meanwhile, the company now also operates two international air routes.—Hohhot-Ulaanbatar and Hohhot-Beijing-Ulaanbatar, and 18 domestic air routes.

**AGRICULTURE****Telephone Conference To Ensure Procurement Funds***93CE0609E Beijing NONGMIN RIBAO in Chinese  
20 May 93 p 1*

[Text] Bai Meiqing, deputy head of the Ministry of Internal Trade preparatory leading group, and the State Grain Reserve Administration director said that the national grain system should act immediately once the new wheat is ready to organize purchases in time. Procurement funds should be deposited in special accounts, the special fund is for special use. The grain and edible oils purchasing fund may not be transferred for other uses. In reference to documents issued by the State Council at the beginning of the year, the summer grain purchasing prices should be made by each province according to the market prices and the grain production situation. However, there is one principle which stipulates that the prices cannot be below the government guaranteed price. There may be regional differences, variety differences, and quality differences.

As to additional prices, Bai Meiqing said that we must give benefits to peasants according to the spirit of the State Council. Additional prices cannot be included in costs. This year's wheat additional price is 4.2 yuan per 100 jin. It includes three parts: First, the central government should pay the additional price of 1.5 yuan per 100 jin for diesel oil. This part will be issued accordingly. Second, the central government should pay the additional price of 1.35 yuan per 100 jin for fertilizer. Imported fertilizer will be distributed to every province. For each purchase of 100 jin of wheat, it will sell five kilograms of fertilizer at the state price. Each province, municipality, and region will decide itself whether to provide the material or exchange it for cash. Third, the

local area should pay 1.35 yuan of additional prices for fertilizer. After the money comes in each local area, it will be cashed by grain departments. Bai Meiqing said that as soon as the funds issued by the central government to the Ministry of Internal Trade are transferred to grain departments, we will be able to distribute them within five days without delay.

A vice minister of the Finance Ministry, Xiang Huacheng said that the State Council decided that beginning 1 April this year, fertilizer prices, and diesel oil which the central and local governments originally used with the government ordered and purchased grain were state prices, and will be changed to a currency form which will directly be given to peasants when purchasing the government ordered grain. He requested that all levels of financial departments must prepare enough supplemental money for the summer grain as soon as possible, and be sure to be able to pay in time. Shortages in payments or debts are not allowed. The central government financial department will evaluate quarterly situations affecting the purchasing grain additional prices in each area, and levy fines to protect the smooth implementation of the grain additional price policy, and firmly forbid newly developed debts in grain.

Zhou Zhengqing, vice governor of the People's Bank of China, said that this year's policy for preparing the purchasing funds of summer agricultural and sideline products has been made. Of the 38,500 million yuan purchasing fund, besides the part that the Internal Trade Ministry and the Finance Ministry are responsible for, the Agricultural Bank has responsibility for 10 billion yuan, the Commercial Bank for 6 billion yuan, the Bank of China for 1 billion yuan, and the People's Bank for 7 billion yuan. Every level should take its own responsibility. Issuing IOUs to peasants is not allowed when the money is not there. In addition, we will this year establish the purchasing fund special account to prevent the purchasing fund from being lost and misused. [For an initial report on this subject, see FBIS-CHI-93-102 pp 35-37.]

**Shandong Faces Problems Implementing Farm Policies***93CE0609A Beijing NONGMIN RIBAO in Chinese  
2 May 93 p 1*

[Text] This year the State Council has consistently issued five policies, for the purpose of speeding up reform of the grain circulation system, protecting peasant interests, increasing peasant income, and increasing agricultural production. Shandong is one of the nation's largest grain producers, and its rural economic development has been very fast in recent years. How are the State Council's policies carried out?

The key of the State Council's five policies is based on the grain risk protection foundation and the "three links" of material additional prices to prevent the situation of "lower grain prices and distracted peasants."

Thus, the financial department should assume the main responsibility. However, the real situation does not satisfy people.

Zibo City in Huantai County is the leading "ton of grain" producing county north of the Changjiang in China with an annual production of 74.24 million kilograms. After Shandong Province freed the price of grain on 1 October 1992, municipal financial departments abolished the nearly 700,000 yuan per month for additional price supplements and the loss policy supplement. Before that the state set purchase orders for grain, after the price was freed the municipal financial department gave the county's financial department the responsibility. The county and municipal financial departments adopted the contracting method of "setting up a fixed amount, and increasing the share of costs." In 1988, the basic amount was 11 million yuan, the additional amount was divided at a proportion of 3:7. In 1992 the county's financial income was nearly 40 million yuan, an increase of 16 percent over the previous year. The whole county has almost 7,000 people using the public affairs expense of 32 million yuan with a deficit of 3 million yuan. When I asked after the State Council made the policy, how did the county implement the grain purchasing guaranteed price and the "three links" material additional prices, the minister of the financial department answered: "At present the municipal financial department still owes the grain department 39.2 million yuan. The county cannot solve this problem at all. What can we do? I don't know!"

In 1991 Shandong province's grain supplements totalled 1.78 million yuan, which is 14.39 percent of the current year's financial department's expense. Because of financial difficulty, at the end of 1991 the whole province had accumulative debts of 1.86 million yuan.

In the investigation into peasant families in Huantai, Shuoguang, Linqu, and Zhucheng, if a peasant has one mu of grain fields producing 800 kilograms, the peasant could increase his income by 80 yuan after the present government's price adjustments, but the cost increases 85 yuan per mu.

First, the prices for the means of production have increased tremendously, and the industrial and agricultural price differential continuously expands. The old "three links" eligible selling price for diesel oil was 580 yuan per ton, and the present market price reaches 1,800 yuan, which is an increase of 210 percent. The old price for fertilizer was 480 yuan, while the current price is almost 1,000 yuan. Huantai County only has these two main agricultural products. The peasants in the whole county need to pay an additional 723,000 yuan. Second, grain market prices have long been declining. Peasants often store grain waiting for a sale. If the grain price continues to be weak, the grain risk protection policy cannot be carried out, it will definitely deflate the peasant's initiative for growing grain. Third, the "three links" materials were changed to the prices with additional prices. The additional price amount cannot offset

the inflated agricultural products' price. In addition, the government provides for wheat and corn 2.85 yuan of protection per 50 kilograms, but what can a local financial department do? In our more than 2,000 counties, 70 percent of the counties have deficits and it is difficult to assure liquidation.

From the results of the investigation, we find that during every year's agricultural and sideline products' purchasing period, the financial and grain enterprises' receive less than 30 percent of the needed purchasing amount. The purchasing departments are short of cash and look for money from the agricultural banks. The local governments put pressure on agricultural banks. The unreceived amount due to the financial department is made up for by these banks. When the purchasing funds are lent out, it is slow to sell the grain, and slow to collect back the money. Several cities issued credit money totalling 1,100 million yuan for purchasing grain in 1992, and until the end of March this year the collected money was less than 10 percent. When the purchasing prices are free, it becomes difficult for the grain enterprises to make the move. They urgently need to find the money to develop, but the situation of using purchasing money is very serious.

This year the government granted 45 yuan of credit per mu for cotton peasants. In Weifang City, it needed to lend out more than 50,000 yuan. The source of the money partly comes from the Agricultural Bank, and partly from the People's Bank with interest. However, the People's Bank in Weifang City made it a three month temporary loan. The fine will be enforced if there is any delay. From production to the sale stage cotton requires a 10 month period. What is it going to do with the seven months of fines?

The financial department, banks, grain enterprises and other agricultural departments are functioning to serve the rural economy. They all have their own difficulties. Some are inherited from history, some stem from problems with an in-depth system. No matter what it is, the policy will not be enforced to the peasant's level. "There is a big pancake in the sky, people can see it but cannot reach it." "Even though the policy is good, I'm afraid it won't be implemented." Peasant worries are not without reason. How can the party's policy be assured to enter into peasants' homes?

#### **Renshou County Reduces Burdens on Peasants**

93CE0656A Chengdu SICHUAN RIBAO in Chinese  
27 May 93 p 1

[Article by Chen Hongjie (7115 1347 2638): "Renshou County Conscientiously Works To Lighten Peasant Burdens"]

[Text] Renshou County has earnestly implemented state and county administrative regulations dealing with peasant debt, carefully and skillfully handling old problems from the past. As a result of the regulations implemented this year, the county-wide per capita public debt



owed by the peasants has fallen to last year's level of 4.8 percent of net income. At the same time, cadres at every level have changed their work style, going deep into the grassroots levels to do practical work and improve relations between cadres and peasants.

In recent years, Renshou County has addressed the issue of management of peasant debt by instituting a series of measures such as "limited amounts for fixed items," "renewed limits on overall amounts," and consolidation of examination and approval authority. Yet, subjective and objective reasons existed for the proliferation of various "quota" and "competition" activities and consolidated fund raising and administration. The peasant's burden grew only worse and the peasants were dissatisfied. Since December of last year, the county party committee and the county government have been dealing with an existing problem—the strongly debated highway 213 renovation project that uses labor for taxes. Repayment of the principle and payment on loans for the highway will be collected from tolls rather than the peasants, the annual interest is 7.2 percent, and the amount of the project debt not yet paid will be foreborne. County leaders publicly announced that all escalating peasant fee collection activities for the attainment of quotas will be eliminated, as will all unified collection projects. No longer will the ability to collect funds from the peasants be permitted to serve as a criteria for assessing a cadre's accomplishments. In the interests of thoroughly spreading information about the spirit of the "two do's," Chen Deyu [7115 1795 3768], secretary of the Leshan City party committee, and several leading comrades from the city level visited Renshou County grassroots areas to guide the county in putting its work in order. County organizations began clearing up the matter of unreasonable peasant debt in 1992, they investigated and dealt with illegal and irresponsible behavior, and they safeguarded peasant interests. In 1993, only farm taxes, water fees, and public debt up to 5 percent are collected from the peasants. Every peasant household has now received a "notification letter."

At the same time, the county party committee has seized upon "grain stability, increased income, lower debt, and adjusted work style" as core items of village work, organizing several hundred cadres to pack their bags and go to the villages to eat, sleep, and work with the peasants, and to guide the peasants in developing numerous areas of enterprise and increasing their incomes. Cadres in the Zhongxiang region have, on their own initiative, contributed money and helped with land cultivation to assist those households with problems or labor shortages. Every region and town organization has set up mess teams serving the cadres and visiting higher level officials who never choose to eat anywhere else. In places like Manjing, publicly-owned motorcycles have been sold in public auctions and the revenues have been used to help with production.

I learned from the county party committee information bureau and the county party committee office that in January 39 debt problems and nine complaints about

cadre work styles were reported. In April, this had fallen to three debt problems and two complaints about work style, and by the middle of May, no complaints had been received for the month. Spring ploughing is on a smooth course throughout the county.

#### **Update on Shaanxi Agricultural Situation**

93CE0565B Xian SHAANXI RIBAO in Chinese  
6 Jun 93 p 1

[Article: "Everyone Contributes To Ensure Abundant Results From the Summer Harvest"]

[Text] Mechanical Wheat Harvesting Is Underway in Shaanxi

With the aim of giving full play to the superiorities of mechanized agriculture, and striving for total victory in the summer harvest, on 2 June of this year Shaanxi formally instituted mechanical wheat harvesting in Dali County.

During last year's summer harvest, Shaanxi organized and implemented the "Shaanxi Province Combined Scale Mechanical Wheat Harvesting Project" for the first time in 50 counties and areas of the Guanzhong and Yan'an regions. Altogether, 1,200 mechanical harvesters were put to work, a total of 1.17 million mu were harvested, the combined income from mechanical and manual harvesting amounted to over 25 million yuan, the wheat harvest increased by more than 5 million kilograms, and over 10 million yuan in costs were saved. The organization and implementation of this project gave full play to the role of mechanized agriculture in expediting the harvest, averting calamity, and increasing results. During this year's summer harvest, Shaanxi decided to continue to further organize and implement the project in Guanzhong, Yan'an, and Shangling Counties. Organizers assembled 2,000 combined project harvesters that travelled to all areas, cutting a wide swath, striving to complete the work of mechanically harvesting 1.85 million mu, and ultimately harvesting 5 million mu. To ensure that mechanical farm production during the summer harvest went smoothly, Shaanxi's bureau of mechanized agriculture organized services to provide information, made specific arrangements, and offered a wide variety of services to assist in summer harvest agricultural production.

#### **Safety Work During the Summer Harvest Takes a Firm Foothold in Pucheng**

The Pucheng County public safety bureau placed safety and firefighting as top items on the summer harvest agenda, making elaborate and careful arrangements and firmly executing the tasks.

In mid-May, the bureau established a summer harvest safety office headed by bureau chief Zhang Ren [1728 0088]. Departments responsible for such things as power, mechanical agriculture, and insurance all signed

an agreement dealing with delegated safety responsibilities. During the latter third of the month, they also devoted time to organizing study and training sessions put on by such bureaus as public security and firefighting for 2,800 public security personnel from 373 public security committees throughout the country, making detailed arrangements for firefighting work during the summer harvest. Also, they dealt with the fact that firefighting work involves long lines, broad areas, short response times, and heavy duties by stationing an additional 31 cadres and policemen in towns and villages to create new forces that will work in a coordinated and complementary way in the summer harvest firefighting and public security efforts.

#### **Wheatfields at an Agricultural Research City Promise a Good Harvest**

At the Yangling agricultural research city, a vast field planted with improved varieties of wheat promises a good harvest. Based on production estimates made in recent days by 12 agricultural specialists stationed at the research unit and by the research city's seed department, the average per mu production was 400-500 kilograms and they estimate that the improved variety of wheat could yield over 4 million kilograms in all.

This year the Yangling district, designated by the provincial government as a base for harvesting improved seed varieties, not only planted the Xiaoyan numbers 6, 107, and 168 and the Shaanxi number 213 seed varieties which are so well-liked by the people, but it also planted such new and improved seed varieties as the superior new composite Xinong number 85 and the Shaanxi 229, 897, and 84G6 varieties, among others. Tested over last winter's arid weather and the rainy spring of this year, the varieties have proven to be lodging and disease resistant, and by virtue of their agricultural features, they meet state standards.

The district is currently going all out to complete the threshing and husking work on the harvested improved varieties of wheat. The seed department invested \$250,000 to introduce a complete set of seed processing equipment from West Germany that will be used in the work. Recently, nearly 100 seed departments from inside

and outside the province came to Yangling to observe operations and introduce improved varieties of wheat to their own areas.

#### **Electrical Equipment Is Serviced on Behalf of the Summer Harvest**

The Lintong power bureau conducted all-out service operations on electrical equipment to ensure safe electricity use during the summer harvest. Since April, the bureau has organized its power supply stations and 27 of its town and village power service stations in conducting detailed check-ups, safeguards, and servicing of the 4,108 kilometers of high and low voltage power lines within the respective domains. Tests were run on the 1,316 power distribution transformers throughout the county and on 96 user-owned transformers so as to ensure a safe overall power network. At the same time, many levels joined in the signing of an electrical safety responsibility agreement whereby the bureau and town leaders agree to take on various areas of responsibility. The power service stations are responsible for town electricity, village electrical work is done by the villages, targets are clarified, and responsibilities are carried out.

#### **Xunba Raises 2.2 Million Yuan for Summer Grain Purchases**

Xunba County agricultural banks adopted effective measures, raising capital from many sources and doing their utmost to support summer grain purchases. By 20 May 1993, they had raised the 2.2 million yuan needed to purchase summer grain and oils. Also, they paid out 390,000 yuan in futures contracts, thereby ensuring that after this summer's grain and oil harvest, farmers are left with something more than empty promises.

#### **Farmers Receive 500,000 Yuan in Loans From the Malou Township Credit Cooperative**

Recently, the Malou Township Credit Cooperative in Lantian County made timely loans to support the masses' purchase of summer harvest farm implements. Currently, 500,000 yuan in agricultural support loans are in the farmers' hands, helping them purchase seed, fertilizer, pesticides, and summer harvest farm implements.

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**DATE FILMED**

16 SEPT 1993